# San Francisco
# Law Library

436 CITY HALL



EXTRACT FROM RULES

Rule 1a. Books and other legal material may be borrowed from the San Francisco Law Library for use within the City and County of San Francisco, for the periods of time and on the conditions hereinafter provided, by the judges of all courts situated within the City and County, by Municipal, State and Federal officers, and any member of the State Bar in good standing and practicing law in the City and County of San Francisco. Each book or other item so borrowed shall be returned within five days or such shorter period as the Librarian shall require for books of special character, including books constantly in use, or of unusual value. The Librarian may, in his discretion, grant such renewals and extensions of time for the return of books as he may deem proper under the particular circumstances and to the best interests of the Library and its patrons. Books shall not be borrowed or withdrawn from the Library by the general public or by law students except in unusual cases of extenuating circumstances and within the discretion of the Librarian.

Rule 2a. No book or other item shall be removed or withdrawn from the Library by anyone for any purpose without first giving written receipt in such form as shall be prescribed and furnished for the purpose, failure of which shall be ground for suspension or denial of the privilege of the Library.

Rule 5a. No book or other material in the Library shall have the leaves folded down, or be marked, dog-eared, or otherwise soiled, defaced or injured, and any person violating this provision shall be liable for a sum not exceeding treble the cost of replacement of the book or other material so treated and may be denied the further privilege of the Library.

# No. 15,629.

IN THE

## UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT.

LOUISE L. COBIN,
*Appellant,*

vs.

MIDLAND MUTUAL LIFE INSURANCE COMPANY,
a Corporation, *Appellee.*

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL DIVISION.

## APPELLANT'S REPLY BRIEF.

LEONARD HORWIN,
HORTENSE STAHL,
121 South Beverly Drive,
Beverly Hills, California,
*Attorneys for Appellant.*

ERICH AUERBACH,
*Of Counsel.*



E. L. MENDENHALL, INC., 1108 Oak Street, Kansas City 6, Mo., HArrison 1-3030

## INDEX



### Table of Cases

# No. 15,629.

IN THE

# UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT.

LOUISE L. COBIN,
*Appellant,*

vs.

MIDLAND MUTUAL LIFE INSURANCE COMPANY,
a Corporation, *Appellee.*

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL DIVISION.

## APPELLANT'S REPLY BRIEF.

I.

### ERRATA IN APPELLANT'S OPENING BRIEF.

At the outset we respectfully request this Court to correct the typographical errors which inadvertently crept into Appellant's Opening Brief.

At page 20, the figure "$50.50" which appears on line 4 of the second full paragraph on that page, should read "$59.50".

At page 24, the reference to page 33 of the Reporter's Transcript, which appears in the third paragraph on that page, should read "R. 32, lines 10-20".

II.

## PRELIMINARY COMMENT.

It shall be appellant's purpose in this brief to answer and comment on points raised in Appellee's Brief in the order in which they are stated therein.

After a prefatory comment on Appellee's Brief, Appellant shall (1) summarize the arguments for and against all points made by Appellee in order that the effect of the mistakes as to the facts in Appellee's Statement of the case, and in Appellee's misconception of the law, may be manifested; (2) Review the evidence which demonstrates from the record, that the judgment is accounted for by the errors complained of; and (3) review the law cited in Appellee's Brief to show there exists no authority to support the affirmance of a judgment obtained as a result of findings repugnant as to the facts and irreconcilable with the principles of the law of insurance.

In its "Summary of Argument" (Appellee's Brief p. 24), Appellee taxes Appellant with what it asserts to be an attempt to classify all of the issues raised on this appeal as legal ones. It contends that the only questions of law involved are whether the District Court erred in its admission of evidence. With respect to all other issues, Appellee seeks sanctuary in the time-honored and frequently argued principle (often asserted, as in the case at bar, unjusti-

fiably) that there is substantial evidence to support the various findings challenged.

*But it is fundamental that it is always a question of law whether or not there is substantial evidence to support a finding.*

A careful scrutiny of Appellee's Brief discloses that the heart and marrow, the very bone and sinew of its argument in favor of an affirmance of the judgment, rests upon its attempt to justify the lower court's unwarranted finding that Mr. Cobin applied for a standard rate policy but that his offer for such a policy was rejected by Appellee when it issued to him a rated policy, a counter-offer, under Appellee's theory of the case, which Mr. Cobin failed to accept.

If this crucial finding cannot stand, and indeed it cannot, as will be demonstrated, because it lacks any substantial evidence to sustain it, then the elaborate structure which Appellee has fabricated in its brief to uphold the judgment, is clearly bottomed upon the faulty sub-structure of an unsupportable finding, flimsily buttressed by the incompetent and inadmissible testimony improperly received by the trial court and given illusory shape by the application of untenable principles of contract law in the field of insurance.

In this latter connection, it is appropriate to remark, that contrary to Appellee's oft-repeated assertions, Appellant has not ignored the fact that "an insurance policy is nothing more than a contract" (Br. p. 3). To the contrary, in the organization of her argument for reversal, Appellant has adhered rigidly to the classic principles of contract law.

However what Appellant has done, has been to focus the attention of this Honorable Court on the unique dimensions of contract jurisprudence when considered in the context of insurance law, dimensions which, lamentably, have been ignored by the lower court in rendering its judgment, and by Appellee in its argument before this tribunal.

III.

## COMMENT ON APPELLEE'S STATEMENT OF THE CASE.

A reading of the record in this case, demonstrates beyond peradventure, that counsel for Appellee was able to lead the trial judge, the Hon. Thurmond Clarke, so far into the bramble bushes that he was unable to grasp the central core of this case. In the same artful fashion, Appellee has composed a disingenuous statement of the case which adroitly turns the eye away from crucial and compelling facts by glossing over the evidence which exposes the fallacy of its position and by dwelling upon a solid phalanx of extraneous evidence erroneously admitted below.

A vital flaw, which threads its way like a leitmotif in all the variations on the theme sounded in Appellee's Brief, begins on page 9 thereof, where Appellee blandly asserts that "it was Mr. Cobin's desire to make application to Midland Mutual for a standard non-rated policy".

Here lies the original infirmity, compounded throughout Appellee's Brief when it iterates time and again that Appellant has begged the question by assuming as true that Mr. Cobin applied for a rated policy which in fact was issued to him. We therefore beg the Court's indul-

gence as we meticulously review the evidence on the subject, not from the mouth of Appellant, nor from evidence stemming from any witness produced on her behalf, but from the very facts adduced from Appellee's witnesses, from the internal evidence of documents prepared by it and its representatives, and from the acts and conduct of its representatives and itself before any dispute arose in this case. Those facts, which overwhelmingly negative the Court's finding, and which compel a new judgment to be entered consistent with those facts, are these:

When Mr. Bloome, Appellee's agent, called at the home of Mr. and Mrs. Cobin with the insurance applications, he knew that all of the insurance policies owned by Mr. Cobin carried a rating and that the best Mr. Cobin had been able to do, was, shortly theretofore, to have some of his policies improved from a lower rating to an A rating (R. p. 29, l. 1—p. 130, l. 5). When Bloome arrived at the Cobin home he had his rate book with him (R. 208, ll. 18-21). Furthermore he had, previously to his arrival, computed the amounts of the premiums required for both Mr. and Mrs. Cobin and knew what they were (R. 211). *Bloome figured that Mr. Cobin's premium was to be $69.52 per month and told him so at the house* (R. 217, ll. 7-10). He himself entered the figure of $69.52 as Mr. Cobin's monthly premium on the Agent's Certificate on the reverse side of Part I of Mr. Cobin's application upon returning to his office. (R. 214, ll. 8-13). He *likewise knew that if Mr. Cobin had applied for a standard rate policy, his monthly premium would have been only $59.50* (R. 221, ll. 3-7).

Bloome himself incorporated into line 11 of Part I of Mr. Cobin's application, the following statement: "Present rating on most recent policy Sub-standard A."

Upon discovering at the house that Mrs. Cobin was born a year later than he had originally thought, he recomputed her premium and found it to be $57.50 per month (R. 140, l. 15—p. 146, l. 16). In asking for a deposit of $130.00 to cover both premiums, Bloome testified: "As long as I had *a couple of dollars extra* in the check to cover the premium, I did not take the time to figure it out to the exact figure". (R. 150, ll. 17-20). The simple addition of Mr. Cobin's premium of $69.52 and Mrs. Cobin's correct premium of $57.50, which gives a total of $127.02, shows that the payment of $130.00 gave Bloome the "couple of dollars extra" he wanted for the policies, computed at standard rates for Mrs. Cobin and on a rated basis for Mr. Cobin.

From these facts standing alone, the conclusion would be inescapable that Mr. Cobin applied and paid for a rated policy and that he was charged a sum, apparently erroneously, slightly in excess of the $66.00 which was the correct premium for the policy he applied for. Had Mr. Cobin applied for a standard rate policy, the total premium for Mr. and Mrs. Cobin would have been $117.00, and Mr. Bloome would not have needed a payment of $130.00 to get "a couple of dollars extra".

But these facts do not stand alone. They are fortified by other evidence from Appellee's own sources. The record shows that Bloome's superior, Mr. Van Elgort, testified in his deposition, that the premium collected by Bloome from

Mr. Cobin was $69.52 (R. 301, ll. 19-25), and that as a consequence there was an over-payment of $3.25 (R. 303, ll. 5-6). Then comes the following revealing testimony from Mr. Van Elgort: "May I add something to that. One of the reasons why the odd amount of premium was collected *is because he was expecting a sub-standard policy*" (R. 303, ll. 19-21).

It is now abundantly clear that Mr. Cobin applied for a policy rated below standard, depositing an advance premium that covered such a rating, with a little overage, and that Bloome and Van Elgort expected a rated policy to be issued, and charged a premium therefor.

The record shows that as a consequence, as soon as the rated policy as issued by Appellee's Home Office, was received by Van Elgort, Cobin's advance payment was immediately remitted to Appellee's home office from Van Elgort's Trust Account (R. 294, ll. 2-7). Clearly if Appellee's attempt to argue that the Home Office had rejected the policy and was merely making a counter-offer, corresponded to the truth of the matter, why should Van Elgort have remitted the premium to the Home Office before determining whether Cobin would accept the alleged counter-offer. Van Elgort's action is utterly incompatible with any legitimate contention that an acceptance of a counter-offer was required by Mr. Cobin.

One inference and one alone, may be drawn from these facts, namely that Bloome and Van Elgort both knew that the policy was issued as applied for and that is why Van Elgort sent Cobin's premium deposit to the Home Office at once. No further action was needed on Mr. Co-

bin's part. A contract was already in force, Mr. Cobin was insured, the premium belonged to Appellee and was therefore remitted to it.

And Bloome was instructed simply to deliver the policies since they had been paid for.

Bloome himself testified that when he delivered the policies to Mr. Cobin, there was no issue of whether the rating was unsatisfactory (R. 235, ll. 1-9).

But even these significant facts do not stand alone. They are fortified by other evidence from Appellee's own sources. Thus, by way of giving the final lie to the spurious and specious contention that Appellee's Home Office rejected the application, and that its issuance of a rated policy constituted a counter-offer, reference is made to the Memorandum dated February 11, 1954, from H. E. Brown, Appellee's Home Office Insurance Underwriter, to Fred Stewart, Manager of Appellee's Policy Records and Premiums Collection Division (R. 23, ll. 19-21). That Memorandum, which bears the very date the policy was issued, was received as Plaintiff's Exhibit 9, and states in its material part with reference to the applications of Mr. and Mrs. Cobin: "We have now been able to complete these applications and *they have been approved today* * * *" (Emphasis added). This admission is completely at variance, and irreconcilable with Appellee's repeated fiction that the application was modified in the Home Office by the endorsement entered on line 19 thereof. For how could the Home Office have *approved* an application for a standard rate policy concurrently with the issuance of a policy with a rated endorsement? Brown's memorandum

to Stewart conclusively establishes that the Home Office approved Mr. Cobin's application for a rated policy and that on that very day, issued such a policy to him. Had the application been for a standard rate policy, it could not have been *approved* concurrently with the issuance of a rated policy.

All of this evidence emanating from Appellee itself, namely that Bloome told Mr. Cobin that his premium was $69.52 (not $59.50, which was the standard rate), Van Elgort's testimony that Bloome was "expecting a substandard policy", Van Elgort's remission of the premium to the Home Office immediately upon receipt of the policy as issued, and Brown's statement to Stewart that the application was approved (not modified, or rejected), furnishes conclusive proof that the policy was issued as applied for. It strips away the whole pretentious facade of Appellee's argument that no policy was ever in force on Mr. Cobin's life.

Finally by way of climactic refutation of such a contention, the attention of this Court is invited to Defendant's Exhibit M, Appellee's own policy record card, which reveals the history of Mr. Cobin's policy. It contains the notation "lapsed March 10, 1954" and "Termination March 10, 1954", which is a time subsequent to the passing of Mr. Cobin.

Seldom in the course of a trial is a litigant fortunate enough and privileged to have the benefit of evidence of such convincing probative force from his adversary in support of his position.

We may now advert further to the contents of Appellee's "Statement of Facts".

At the bottom of page 10 of its Brief, Appellee refers to the language of the deposit slips (Defendant's Exhibits A and B). The language therein is interesting. It notes that the deposit is received "upon the condition that if the company shall determine that the application was, as of the date hereof, acceptable according to its customary standards, the company will then put into force the insurance applied for *and the deposit shall thereupon be applied toward payment of the first premium on such policy * * **" (Emphasis added). That the policy was issued as applied for, appears from the fact that it was approved at the Home Office and from the further fact that Van Elgort, immediately upon receipt of the rated policy for Mr. Cobin, sent his deposit to Appellee as *"payment of the first premium on such policy"*.

At page 12, Appellee refers to the fact that the figure of $69.52 on line 20 of the application, was filled in by the cashier. But Bloome had earlier told Mr. Cobin at his home, that his premium was $69.52 (R. 217, ll. 7-10), and he himself filled in that figure on the Agent's Certificate on the back of Part I of the application (R. 214, ll. 8-13). The slight mistake in the premium is perhaps a reflection on Bloome's mathematical ability, but does not detract from the fact that Mr. Cobin was paying for a rated policy. He did not pay less than the premium for a rated policy—he paid slightly more through the arithmetical error of Appellee's agent.

The whole history of Mr. Cobin's delay in taking his medical examinations, which Appellee stresses on pp. 12-14 of its Brief, has no relevance since he took the examination and a policy was issued. It is but an example of the Court's reception of utterly irrelevant matter and is part of the prejudicial error with which this case is tinged.

The extensive references to the testimony of Mr. Koff and Mr. Grosten, at pp. 14-16, most of which relates to incidents before the issuance of the policy, merely emphasizes again the errors in the admission of such evidence below.

Furthermore if the Court will examine the transcript of the testimony of Mr. Koff and Mr. Grosten, it will be observed that their testimony had little, if anything, to do with the policy from Appellee, which was a straight life policy, bought by Mr. Cobin for the benefit of his widow and children. The policy which Mr. Cobin carried with Manhattan Life Insurance Company was a partnership policy, bought by and made payable to the National Pipe and Steel Company to permit that partnership to buy out the interests in the company of Mr. Cobin's widow in the event of his death (R. 190-192). Cobin never discussed Appellee's policy with Grosten (R. 194, ll. 11-16). However, as indicated, all of this testimony was improperly received in flagrant violation of the hearsay and parol evidence rules. Furthermore, as has been pointed out in Appellant's Opening Brief at p. 55, and pp. 68 and 69, all of that evidence was entirely outside any issue in this case.

On page 17 Appellee makes a highly misleading reference to question 12 of the application form. Appellee as-

serts "Nothing was stated in this space in either policy indicating that any other than the usual non-rated policy was being applied for * * *". However, Appellee fails to mention that nothing in question 12 calls for mentioning any desired rating, whereas Line 11 does mention a rating specifically. Furthermore the testimony of Mr. Bloome on this subject is enlightening:

> "Q. Now, is it a fact, Mr. Bloome, that the statement 'Preferred Life to 85' refers only to the fact that it is an ordinary life insurance contract which is issued in minimums of $10,000?
>
> "A. That is correct.
>
> "Q. And that that term has no reference whatsoever to the rate?
>
> "Mr. Duque: Do you mean rate or the rating?
>
> "Mr. Horwin: The word rating is better, standard and substandard.
>
> "The Witness: That is correct." (R. 140, ll. 4-14).

The reference on page 17 to Appellee's endorsement on line 19 of the application, proves nothing, since the reference to such Class A is merely confirmation of acceptance of the very class mentioned in line 11 of Mr. Cobin's application (R. 136, l. 22—p. 137, l. 1 and R. 248, ll. 13-17). The fact that the company sees fit to mention such classification, when it is accepting something other than a standard rate, does not establish a counter offer. The endorsement would have significance only if line 20 of Mr. Cobin's application, and line 19 of the Agent's Certificate on the reverse side thereof, showed that a premium had been paid at a standard rate, which is not the case here. Furthermore Brown's memorandum to Stewart on February 11,

1954, the date the policies were issued to Mr. and Mrs. Cobin, showed that both Mr. Cobin's and Mrs. Cobin's applications were approved. In short the application of Mr. Cobin, both by reference to his substandard rating and the amount of premium shown, indicates a substandard policy was applied for, even without regard to the previous testimony which has been alluded to, which shows this to have been the case. None the less if there is conceivably any ambiguity in the application, it was of Appellee's own making, and under well established principles of construction, would have to be construed against the insurer. *Ransom* v. *Penn Mutual Life Insurance Co.*, 43 Cal.2d 420, 425, *Culley* v. *N. Y. Life Ins. Co.*, 27 Cal.2d 187, 194.

It is not true, as Appellee asserts on page 20, that Appellant's original complaint denies a meeting with Bloome in February; the pleading of the ultimate fact that the policy remained with the company, has nothing to do with whether or not there was a meeting with Bloome and no reference whatsoever is made thereto in her original complaint. However, it is not amiss to refer to the fact of Appellee's own contradictory position, when it denied in its original Answer that Bloome had ever delivered the policies to Mr. Cobin, notwithstanding Bloome's admission that he had physically delivered them. Likewise, it is not true that appellant changed her position with regard to the meeting of February 19, 1954. Her prior complaint pleaded that the policy remained in Bloome's possession whereas by means of the facts alleged in the Affidavit of Leonard Horwin, her counsel, it was merely sought to

amend the complaint to complete and correct the facts with respect to the delivery of the policies, which were disclosed both by Bloome and Appellant in their respective depositions. It may be said that it is Appellee who was inconsistent, if not worse, in omitting to disclose in its original Answer that Bloome had in fact delivered and left the policies with Mr. Cobin.

The whole fabric of Appellee's story of its "policy cycles" on page 21, which seeks to minimize the fact that it mailed out a notice of premium on March 9, 1954, four days after Mr. Cobin died, is left in shreds by the simple fact that at the end of the alleged cycle, Appellee itself set out on its final record card of March 10, 1954 (Defendant's Exhibit M), that the policy was terminated on March 10, 1954, and struck out the prior references to "not taken March 3, 1954".

The references at pp. 22 and 23 to subsequent conversations between Appellant and Bloome are of no moment. After Mr. Cobin's death, Appellant placed the matter in the hands of her attorney and immediately turned over to him the correspondence of March 30, 1954 and April 16, 1954, which she received from Appellee (R. 400, ll. 8-17). She also turned over to him the refund check of $130.00 which she received from Appellee in the latter part of April, 1954, without cashing it (R. 402, ll. 13-20). That check, of course, has never been cashed.

IV.

## COMMENT ON APPELLEE'S SUMMARY OF ARGUMENT (Page 24).

It is significant that at the trial, Appellee expressly disclaimed that any issue of cancellation existed in the case. Appellee's counsel, Mr. Duque, represented as follows to the trial judge:

> "Contrary to what Mr. Horwin has said, there is no legal issue in the case as to a cancellation. Our defendant's position is that there was never a contract; therefore there can be no issue of cancellation. In other words there was never an acceptance of delivery by the Applicant of the contract, and therefore, there could be no contract, and therefore, there is no issue of cancellation involved in this case" (R. 32, ll. 10-17).

In its Summary of argument, Appellee now offers cancellation as an alternate ground of affirmance, for appellee has become apprehensive of its original position. It is doubtful whether at this late stage Appellee is entitled to avail itself of this defense, threadbare and untenable as it is under the factual circumstances here presented in the light of the controlling principles of law.

V.

## REPLY TO APPELLEE'S ARGUMENT—POINT I.

### A. The Material Findings Are Not Supported by Any Substantial Evidence.

At pages 25 and 26, Appellee seeks refuge in venerable principles of law binding on appellate courts, which, however, are not germane in the situation here presented.

An appellate court is not required to abdicate its intelligence by rubber stamping findings which fly in the very teeth of the evidence. On the contrary the reviewing court must examine the evidence upon which the fact finder has predicated his determination, and if, in the circumstances of the case, as developed by the evidence, it points irresistibly to but one reasonable conclusion, then the issues presented are determined as questions of law. *Pierce* v. *Black,* 131 Cal. App. 2d 521, 525.

This rule is given cogent expression in *Herbert* v. *Lankershim,* 9 Cal.2d 409, where the Court states at pages 471-472:

> "We have stated the evidence as strongly in plaintiff's favor as the record will warrant and we have made an extended review of the evidence because of the often applied rule that an appellate court will not interfere with the judgment entered by a fact-finding body when there exists a substantial conflict in evidence. This rule, however, does not relieve an appellate court of its duty of analyzing the evidence in the light of reason and human experience and giving consideration to the motives and propensities which tend to influence or prompt human action, in an effort to solve the question as to whether the judgment is reasonably and substantially sustained by the evidence.
>
> "* * * There must be more than a conflict of mere words to constitute a conflict of evidence. The contrary evidence must be of a substantial character, such as reasonably supports the judgment as applied to the peculiar facts of the case. The rule announced in *Morton* v. *Mooney et al.,* 97 Mont. 1 (33 P. 2d 262),

correctly states the rule which has been approved by this court in a number of our decisions. It thus stated:

> " 'While the jurors are the sole judges of the facts, the question as to whether or not there is substantial evidence in support of the plaintiff's case is always a question of law for the court (*Grant* v. *Chicago, etc., Ry. Co.,* 78 Mont. 97 (252 Pac. 382)), and in determining this question "the credulity of courts is not to be deemed commensurate with the facility and vehemence with which a witness swears." It is a wild conceit that any court of justice is bound by mere swearing. It is swearing creditably that is to conclude the judgment.' "

In support of its claim that there was substantial evidence to support the challenged findings that Mr. Cobin applied for a policy to be issued at standard rates, and that the policy issued by Appellee was different from the policy applied for, Appellee states at page 28, that Bloome testified Mr. Cobin wanted a standard rate policy. At p. 29 it asserts that questions 12 and 18 of Part I of the application, does not indicate that anything more than a standard policy was called for. This in essence is the sum total of the "substantial" evidence to "support" the trial court's findings.

Turning first to the contention that Questions 12 and 18 are paragraphs which would reflect statement of rating, an examination of those paragraphs reveals that nothing therein calls for the indication of a rating. On the contrary Bloome specifically testified that paragraph 12 has nothing to do with the rating (R. 140, ll. 4-14). So far as concerns Paragraph 18, nothing in the words "special

request" suggests a rating. As the author of the document, Appellee could surely have drafted it to suggest that a rating was called for therein. Furthermore Bloome did incorporate in the application in Line 11, the fact that Mr. Cobin carried rated insurance, and Question 20 of Part I and Line 19 of the Agent's Certificate showed that a premium was paid on a rated basis.

At page 28, Appellee asserts that Bloome's statement that Mr. Cobin desired a standard policy, created a conflict in the record. However the basic conflict that it creates is with Bloome's own testimony. For example, at page 30, seeking to neutralize the thrust of Appellant's argument that the premium on a standard rate policy on Mr. Cobin would have been $59.50, Appellee asserts that the charge of $69.52 received by Bloome, was not a charge for the first month's anticipated premium. But Bloome's own testimony is that when he came to the Cobin household, he had already computed Mr. Cobin's premium at $69.52 and told him so (R. 217, ll. 7-10). This unmistakably shows that neither Bloome nor Cobin had a standard rate policy in mind. Bloome's own testimony impeaches and negatives the argument that the application was made for a standard rate policy. It also negatives the lame explanation on page 3, about Mr. Bloome's not wanting to spoil a sale because of the late hour, in requesting the payment of $130.00. This explanation has no validity for two reasons: to begin with the only recomputation involved was Mrs. Cobin's premium, since Bloome told Mr. Cobin his premium amounted to $69.52. Secondly, Bloome testified he wanted "only a couple of dollars extra",

$130.00 being a couple of dollars over the sum of $69.52 and $57.50, Mrs. Cobin's recomputed premium.

It is clear from a reading of the material set out on pages 27-34, of Appellee's Brief, that far from detailing any substantial evidence to support the findings, Appellee has concerned itself largely with a vain endeavor to refute the evidence which negatives those findings.

To recapitulate, this evidence, all of which derives from Appellee itself, shows:

1. Bloome's incorporation into the application of a reference to Mr. Cobin's most recent policy as being rated.

2. Bloome computed Mr. Cobin's premium at $69.52, telling him this was his premium, and entered it on the Agent's Certificate, despite the fact that he knew from his rate book that a standard rate premium was $59.50.

3. Van Elgort's testimony that Bloome expected the issuance of a substandard policy (R. 303, ll. 5-6).

4. The memorandum from Brown to Stewart on February 11, 1954, the day the policies were issued, stating the applications were *approved.* This is exactly and diametrically opposite to Appellee's present contention that it merely counter-offered when issuing the policy.

5. Van Elgort's immediate transmittal of the $130.00 deposit to the company when Cobin's rated policy was received by him, consistent only with the fact that the policy was issued as applied for and that no further act by Mr. Cobin was contemplated.

6. Bloome's delivery of the policy to Cobin, and leaving it with him, with no discussion at all about the rating.

7. The company's policy history card (Defendant's Ex. M) which shows the policy was terminated on March 10, 1954.

In the light of this evidence, there is no force to Appellee's suggestion on page 29, that the Home Office endorsement in paragraph 19 of the Application, converted an acceptance and approval of a policy application accompanied by the transmission of the premium, into a mere counter offer.

And in the face of this overwhelming evidence, drawn entirely from Appellee's sources, can it be legitimately urged that there is any substantial evidence to support the findings?

At pages 32-33, Appellee refers to Van Elgort's request in a letter to Appellee for the return of the premium from Appellee when he learned Mr. Cobin had refused to accept the policies (Deft's. Ex. I). This letter was objected to as a self-serving declaration, hearsay and inadmissible under the rule of *Bloom* v. *Pacific Mutual Life Ins. Co.,* 85 Cal. App. 419, 496, where the Court points out: "* * * it is self evident that statements and letters passing between a principal and an agent in support of a defendant's contentions do not constitute evidence against a third party, * * *"

It is another conspicuous illustration of the prejudice suffered by Appellant from the Court's promiscuous reception of improper evidence, and the incompetent char-

acter of the evidence relied on by Appellee in support of the judgment.

Appellant most earnestly submits that the facts demonstrated by the evidence from Appellee's own sources and witnesses, which have been hereinabove referred to, so overwhelmingly overcome and outweigh anything produced to the contrary, that the support necessary to the finding challenged is not only insubstantial but non-existent. More than ever is it apparent that the language of this honorable Court, speaking through Judge Bone, in *Centennial Ins. Co.* v. *Schneider,* 247 F. 2d 491, 494, is here germane:

> "Under Rule 52 (a) of the Fed. Rules Civ. Proc., 28 U.S.C.A., a finding is clearly erroneous when, although there is evidence to support it, a reviewing court on reviewing the entire evidence is left with a definite and firm conviction that a mistake has been made (Citations).
>
> "After a complete study of the evidence we are left with the conviction that a mistake has been made."

At page 34, Appellee refers to the Court's finding that Mr. Cobin refused to accept the policy, and returned the same for cancellation. It is significant to note, however, that if no contract of insurance had ever been created, there would have been nothing to cancel. The term "cancellation" is a word of art and the use of that term in the findings is in irreconcilable conflict with the finding that no contract was created because the application was not accepted as applied for.

It is elementary that findings must be consistent with each other. If findings are irreconcilable, the Court will

not attempt to harmonize them. See *Randall* v. *Hunter*, 66 Cal. 512. When findings upon material issues are inconsistent or contradictory, it is rudimentary that the judgment is deemed unsupported by the findings.

But regardless of the contradiction reflected in the Court's findings, the evidence which Appellant has previously set out, and which is too clear to be gainsaid, unerringly indicates that a contract came into force when the company approved the application, issued the policy and received and retained at all times the premium in payment thereof which had been deposited by Mr. Cobin.

These facts being established by the most unequivocal evidence, the authorities and argument contained at pages 23-32 of Appellant's Opening Brief, apply with compelling force to the case at bar and are absolutely controlling. Appellant does not desire to unduly extend this Brief by reproducing the material therein contained. Appellee's attempt to diminish the force of such argument, and to distinguish the cases cited, is clearly nugatory.

The muddled logic inherent in Appellee's position, is expressed with singular clarity at page 38 of its Brief, where it cites authorities to the effect that an insurer has no right to retain a premium submitted with an application where it issues a policy differing from the one specified in the application. Is it not then apparent that General Agent Van Elgort's transmittal of the premium from his trust fund to Appellee, upon receipt of the policy from the Home Office, constitutes the most emphatic expression of his understanding that the premium was earned and belonged to the company because the application was ap-

proved and accepted as made? And this conduct, together with the company's memorandum that the applications were approved and the issuance of the policies, is in harmony with the language of the deposit receipt which provides in part "that if the company shall determine the application was, as of the date hereof, *acceptable according to its customary standards,* the company will then put into force the insurance applied for, and *the deposit shall thereupon be applied toward payment of the first premium on such policy* * * *" (Emphasis added).

It is unnecessary to further belabor the significance of this evidence.

At page 44 Appellee urges: "If it is true as the District Court found, that Mr. Cobin refused to accept the policy, for whatever reason, it is equally true that the policy was not in force at the time of his death".

This, of course, is a complete *non sequitur* for it assumes that both physical delivery of the policy and Mr. Cobin's acceptance was necessary to create a contract. But that is not the law.

The authorities cited at page 25, *et seq.,* of Appellant's Opening Brief, which contain Federal, California and Ohio authorities, establish the proposition that where an application is made for a policy of life insurance, and a sum of money is paid to an agent of the insurer to be applied on the first premium, if the insurer accepts the application, the contract is complete on the issuance of the policy and no delivery of the policy to the insured, nor acceptance of the policy by him, is essential to make a contract of insurance binding.

This is precisely the situation in the case at bar. The trial judge failed to recognize the basic principle that that insurance contract sprang into force upon the acceptance of the application by the insurer, and that no further act on Mr. Cobin's part was necessary to lend vitality to the contract.

However in the present case not only was there payment of a premium deposit with the application, approval of the application by the insurer, and issuance of a corresponding policy, but there was also delivery of the policy to the agent, concurrent transfer of the insured's premium from the agent to the insurer, and actual physical delivery of the policy to the insured which was kept by him for several days.

It is thus manifest that the Court's findings rest upon the fallacious notion that the parties were still in the process of negotiating a contract of insurance at the time the policy was issued.

The testimony cited by Appellee at pages 44-46, is suggestive of what partly contributed to the trial judge's errors in the case at bar, namely the reception by him of improper, irrelevant and immaterial evidence. The testimony referred to is cited by Appellee in support of the finding that Mr. Cobin refused to accept the policy offered him. The irrelevance of such a fact, assuming it to be true, has already been pointed out since the contract was made when Mr. Cobin's application was accepted and the policy issued; personal delivery to him and acceptance of the policy by him was unnecessary to the formation of a contract. Any refusal to accept and the return of the pol-

icies, could only amount to an offer to cancel which Appellee never accepted nor consummated in Mr. Cobin's lifetime.

The testimony of Mr. Bloome that Mr. Cobin did not take his physical examination for 7 weeks was objected to (R. 103, l. 8, p. 104, l. 15) because Mr. Cobin did in fact take his examination and his application was approved.

The testimony of Mr. Koff, cited by Appellee, relates to a period prior to the time Mr. Cobin took his physical examination, namely in the Fall of 1953 or at the beginning of 1954 (R. 164, ll. 4-5) whereas Mr. Cobin took his physical examination on January 28, 1958 (Ptff's. Ex. 2).

At the bottom of p. 45, Appellee alludes to a meeting in February, 1954, between Mr. Grosten and Mr. Cobin in the office of Mr. Cobin's counsel, in a manner which is grossly misleading. It seeks to suggest that Appellee's policy was the subject of discussion at such meeting. However Mr. Grosten specifically testified that Appellee's policy was never discussed at that meeting (R. 194, ll. 17-24). Mr. Grosten testified he was little concerned about Appellee's policy (R. 184, ll. 18-19). In fact a reading of Mr. Grosten's testimony discloses that he met Mr. Cobin on only one occasion (R. 179, ll. 24-25), that a $56,000 term insurance policy was placed through his agency on Mr. Cobin's life (R. 180, ll. 10-11), that the buyer and beneficiary thereof was National Pipe and Steel Co., a partnership, and that the meeting in February, 1954, was for the purpose of discussing a buy and sell agreement among the stockholders of National Pipe and Steel Co., to enable the

company to buy out the stock interest of any deceased partner (R. 190-194). A reading of Mr. Grosten's testimony clearly indicates that the Manhattan Life Ins. policy had nothing to do with the Midland Mutual Life Ins. policy. The company was the beneficiary under the Manhattan policy, while Mr. Cobin's widow and children were his beneficiaries in the second policy. The object of the Manhattan policy was to provide a means by which the company could buy out the widow's interest in the company; the object of the Midland policy was to provide insurance for Mr. Cobin's widow and children. The Manhattan policy was on a term insurance plan; Midland was a straight life policy.

In short, not only was the evidence cited on pages 44-46 improperly received, but, as pointed out in detail at pages 68-69 of Appellant's Opening Brief, the collective weight of this and other improper evidence, was prejudicial to Appellant, vitiated the trial and contributed significantly to the decision arrived at below.

**B. Mr. Cobin's Policy Was Never Cancelled by Appellee in His Lifetime.**

Appellant has set forth at length, at pages 32-42 of her Opening Brief, the argument and authorities which completely nullify any contention that Appellee cancelled Mr. Cobin's policy before his death.

As has been previously indicated, Appellee disclaimed at the trial that there was any issue of cancellation in this case. It now, belatedly, suggests at pages 47-50, that the policy was in fact cancelled at Mr. Cobin's request. In

support thereof, it states at page 48, that when the words "Not Taken March 3, 1954" were stamped on the policy by Mr. Stewart (R. 325, ll. 8-10), the policy was effectively cancelled. This contention is without merit for at least five reasons:

1. As has been pointed out at pages 57-63 of our Opening Brief, this testimony was inadmissible as a self-serving declaration and violative of the hearsay rule.

2. More important, however, is the fact that Mr. Stewart had no authority to cancel policies. The evidence shows that Mr. Stewart was Appellee's *Manager* of the Policy Records Division and *Supervisor* of the employees maintaining policy history cards (R. 318, ll. 15-23). *As a Manager and Supervisor he had no authority to cancel the policy.* The policy provides under title "General Provisions and Benefits", on page 2, as follows:

> "Limitation of Authority: *This policy cannot be varied or altered or its conditions waived or extended in any respect by written agreement of the Company,* signed by the President, a Vice President, the Secretary, an Assistant Secretary, or the Actuary, whose authority in this respect shall not be delegated" (Emphasis added). "No agent, employee, *supervisor or manager,* has power on behalf of the Company to * * * discharge this or any other contract of insurance * * *" (Emphasis added).

3. Appellee mailed to Mr. Cobin a notice of premium on March 9, 1954, four days after his death.

4. Appellee's own policy history card (Deft's. Ex. M) shows that the words "Not Taken March 3, 1954" were

stricken out and there was printed thereon "Lapsed March 10, 1954" and "Termination March 10, 1954".

5. Appellee never refunded Mr. Cobin's premium in his lifetime and made no attempt to do so until April 16, 1954. The failure to return an unearned premium, the failure of the insurer to give notice of cancellation, the request for premium from the insurer mailed on March 9, 1954, and the insurer's own policy record card which shows that the policy was treated as lapsed on March 10, 1954, and not terminated until that date, all unequivocably establish that the policy was in full force on March 5, 1954, when Mr. Cobin died.

It is imperative to remember that the requirement that a notice of cancellation be given to the insured to render the cancellation effective, is indispensable. This is clearly pointed out by this honorable court in the case of *Traders & General Ins. Co.* v. *Champ,* 225 F. 2d 802, where the Court stated (p. 806): "We are satisfied the trial court was correct under the California law in holding the cancellation here ineffective, at least prior to receipt of actual notice."

At page 805, this Court also observes: "Parenthetically, we think if it were ours to decree, there would be no harm in a rule of law that no notice of cancellation (where there was no fraud on the part of the insured) could be effective until it reached the insured, provided the insured had left open the channels of communication to him and had not removed himself an unreasonable distance away."

The significance of Appellee's failure to return the premium is fully discussed at pages 39-42 of Appellant's Opening Brief and will not be repeated here.

At page 51, Appellee attempts to explain away the significance of Appellee's policy history card, showing that the policy terminated on March 10, 1954. There is nothing in the record cited by Appellee to support its statement that this merely indicated the date on which its Accounting Department received notice of Mr. Cobin's alleged refusal to take the policy. Furthermore the card itself (Deft's. Ex. M), is a clearly written statement of the history of Mr. Cobin's policy and any employee's attempt to explain away such a statement, is self-serving and hearsay evidence and inadmissible, and subject to the motion to strike which the Court improperly denied (R. 370, ll. 14-22, p. 371, ll. 7-15).

The card itself, being an admission against interest, was of course, admissible.

VI.

## REPLY TO APPELLEE'S ARGUMENT—POINT II.

### A. The District Court's Rulings As to the Evidence Were Clearly Prejudicial.

1. Appellant has already cited in detail the many instances in which the Court received evidence in violation of the parol evidence rule (Appellant's Opening Brief, 46-55), and will not repeat that material or the authorities cited in support thereof.

2. At page 53, Appellee asserts that the record reveals that Mr. Grosten testified only to conversations he had with Mr. Cobin. That is patently untrue. Mr. Grosten was permitted to testify to conversations that he had with Mr. Orland, the Manager of his agency (R. 181, l. 23, p. 182, l. 11). Furthermore the complete irrelevancy of Mr. Grosten's testimony appears from his own statement that his discussions with Mr. Cobin did not concern Appellee's policy (R. 184, ll. 8-19).

Thus *C.C.P. 1870,* referred to at page 54, has absolutely no application in this context.

Appellee's attempt to justify the objectionable testimony received from Mr. Van Elgort completely disregards the rule that Appellant is entitled to use admissions against interest but that Appellee is barred by the hearsay rule as indicated in *Bloom* v. *Pacific Mutual Life Ins. Co.,* 85 Cal. App. 419, 496, from attempting to introduce proof of uncommunicated intra-company acts, customs or practices.

3. Appellant has fully set out at pages 57-63 of her Opening Brief, the character of evidence given by Mr. Fogg and Mr. Stewart and incorporates by reference herein, her objection to such testimony as replete with hearsay, conjecture and surmise, self-serving declarations, proof of customs unknown to and uncommunicated to Mr. Cobin and otherwise improper evidence. The trial court made absolutely no effort to comply with the well established principles of the law of evidence but permitted Appellee the widest latitude in injecting into the case evidence of the most incompetent character.

4. It would be a work of supererogation to comment in detail on various other examples of erroneous rulings made by the trial court. This has been done in the material contained in pages 64-69 of the Opening Brief and we respectfully urge the court to consider this material in connection with the erroneous rulings previously cited.

Appellant is confident that this court will recognize how prejudicially to Appellant's interests the Court permitted the facts to be developed below.

## CONCLUSION.

The stark incontrovertible facts taken from Appellee's own sources cannot be repelled by the sophistry or fallacious reasoning embodied in Appellee's Brief, for squirm and hedge and evade and weasel as much as the facile minds and legal ingenuity of its able counsel has permitted, Appellee cannot hide the compelling facts that demonstrate that a miscarriage of justice took place in the courtroom of Judge Thurmond Clarke that this tribunal must not permit to remain unrectified.

It is respectfully submitted that the prevailing principles of law, when applied to the facts of this case, show:

1. That Mr. Cobin applied for a rated policy, that he was charged for a rated policy, that he paid a premium based on a rated policy and that Bloome and Van Elgort expected a rated policy to be issued.

2. That Appellee approved Mr. Cobin's application by a written memorandum and issued its policy.

3. That Van Elgort immediately remitted the premium to Appellee which at all times retained said pre-

mium and Bloome physically delivered the policies to Mr Cobin.

4. That at no time while Mr. Cobin was alive, did Appellee notify him the policy was cancelled, nor communicate to him any cancellation of the policy nor return his premium.

5. That no legally effective cancellation of the policy ever occurred in Mr. Cobin's lifetime but on the contrary a notice of premium due was mailed to Mr. Cobin on March 9, 1954.

6. That the policy was in full force and effect, and fully paid for, when Mr. Cobin died on March 5, 1954, and that the insurer's own policy record card showed that the policy did not lapse or terminate until March 10, 1954.

7. That Mr. Cobin's widow, appellant herein, is entitled to recover on the within complaint as beneficiary under said policy.

For the foregoing reasons it is respectfully requested that this Court reverse the judgment of the trial court and direct that a judgment be entered for Appellant.

Failing reversal of the judgment, with direction to enter judgment for appellant, the judgment should be reversed and the cause remanded for a new trial.

Respectfully submitted,

Leonard Horwin and
Hortense Stahl,
*Attorneys for Appellant.*

Erich Auerbach,
*Of Counsel.*

No. 15,629

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

---

LOUISE L. COBIN,

*Appellant,*

*vs.*

MIDLAND MUTUAL LIFE INSURANCE COMPANY, a corporation,

*Appellee.*

---

On Appeal From the United States District Court for the Southern District of California, Central Division.
Hon. Thurmond Clarke, Judge.

---

## APPELLEE'S BRIEF.

---

ADAMS, DUQUE & HAZELTINE,
523 West Sixth Street,
Los Angeles 14, California,
*Attorneys for Appellee.*

HENRY O. DUQUE,
JAMES S. CLINE,
*Of Counsel.*



Parker & Son, Inc., Law Printers, Los Angeles. Phone MA. 6-9171.

## TOPICAL INDEX

## TABLE OF AUTHORITIES CITED

### Cases

PAGE

## Rules



## Statutes

No. 15,629

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

---

Louise L. Cobin,

*Appellant,*

*vs.*

Midland Mutual Life Insurance Company, a corporation,

*Appellee.*

---

**On Appeal From the United States District Court for the Southern District of California, Central Division. Hon. Thurmond Clarke, Judge.**

---

## APPELLEE'S BRIEF.

---

## STATEMENT OF THE CASE.

### Introduction.

Appellant's entire argument on this appeal is based on the assumed premise that a contract of life insurance sprang into existence when appellee, at its Home Office on February 11, 1954, "issued" a policy of insurance naming Leo Cobin as the insured. From this assumed fact, appellant argues that the trial court committed several grievous errors of law which require reversal of the judgment for appellee. Appellant's argument, however is spurious since it begs the question by assuming as true the very fact which was in issue at the trial of the action and which was found to be untrue by the trial court. In this connection the court found that Leo

Cobin made application for a policy to be issued at standard premium rates (an offer), that appellee issued a different policy than the one applied for and which called for higher than standard premiums (a rejection of the offer and a counter-offer) and that Leo Cobin "refused to accept and did reject" the policy as issued (a rejection of the counter-offer) [Clk. Tr. pp. 28-29]. The court then concluded that at the death of Leo Cobin, no contract of insurance existed between appellee and Leo Cobin [Clk. Tr. p. 30, lines 24-25]. At best, therefore, appellant's argument for reversal must be based on the proposition that the trial court's findings are not supported by the evidence, a position which itself is untenable.

The evidence when viewed, as it must be, in support of the District Court's findings of fact, may be summarized as follows: Appellant Louise L. Cobin was the wife of Leo Cobin, now deceased. About two months prior to his untimely, and quite unexpected, death, Leo Cobin made written application to appellee Midland Mutual Life Insurance Company for a $25,000.00 policy of insurance. At the same time Mrs. Cobin also made application to appellee for a similar policy. After executing separate applications, Mr. and Mrs. Cobin gave appellee's soliciting agent, Mr. Bloome, $130.00 as a deposit to be applied toward the first premium due on the policies applied for. In return, they received from Mr. Bloome two documents, each entitled "Deposit Receipt" and which together acknowledged receipt of the $130.00 deposit.

Mrs. Cobin's application was approved, and appellee issued to her a policy exactly as applied for. Appellee, however, modified Mr. Cobin's application and issued in his name a policy different from that applied for, *i.e.*, the policy was rated as "Special Class A" which called for higher than standard premiums. When Mr. Bloome re-

ceived the policies and offered them to Mr. Cobin, Mr. Cobin took possession of the policies but told Mr. Bloome that he could not accept them until he discussed the matter with his attorney. Two days later Mr. Cobin returned the policies to Mr. Bloome and stated that he had, on the advice of his attorney, concluded that the insurance was unnecessary to his estate plan and that he therefore would not accept the policies and wanted them cancelled. Mr. Cobin then returned to Mr. Bloome both policies and the deposit receipts. Thereafter Mr. Bloome returned the policies and the deposit receipts to appellee's Home Office in Ohio where the policies were cancelled and stamped "Not Taken. Mar. 3, 1954." Mr. Cobin died two days later on March 5, 1954.

The within action is a consequence of appellant's insistence, contrary to the decision of the trial court, that the policy issued upon the life of her husband was in force and was effective as a contract on the date of his death. As beneficiary, she seeks to recover the face amount of that policy.

The legal principles applicable to this case are not complicated. They involve only the basic and fundamental concepts applicable to the formation of a contract, for, although it apparently has been ignored by appellant, an insurance policy is nothing more than a contract. In this regard appellee contends (a) that Mr. Cobin's application constituted an offer to purchase life insurance, (b) that in modifying Mr. Cobin's application and issuing a policy different from that applied for, appellee rejected Mr. Cobin's offer and in effect made a counter-offer, (c) that Mr. Cobin's refusal to accept the policy as issued constituted a rejection of appellee's counter-offer, and consequently the policy, though "issued", did not ripen into a contract. Appellee also contends, in the alternative, that if a contract did come into existence, it was cancelled by appellee at the request of Mr. Cobin.

By means of devious legal reasoning involving improper classification of terms and application of theories, appellant seeks to confuse the fundamental and simple principles governing this cause. In so doing, appellant has assumed as established the basic issue presented for decision. Throughout her brief, appellant has repeatedly assumed and stated as a fact that Mr. Cobin applied for a "rated" policy. Such was not the fact and the District Court so found [Clk. Tr. p. 28, lines 2-10]. From her assumption that Mr. Cobin applied for a rated policy, appellant reasons that a completed contract of insurance came into existence when appellee prepared a rated policy for delivery to Mr. Cobin, actual delivery or acceptance being unnecessary. Similarly, appellant also contends that the "issuance" of the policy being admitted, it follows that the existence of the contract is also admitted and accordingly an actual delivery to or acceptance of the policy by Mr. Cobin was unnecessary. Such reasoning must fail since, as will hereinafter be demonstrated in detail, appellant's assumed fact is contrary to the trial court's finding which is supported by very substantial evidence.

When viewed in its proper perspective, therefore, appellant's appeal is primarily based on the contention that the findings of fact are not supported by the evidence. Appellant, however, seeks to classify the issues on appeal as involving matters of law rather than merely the sufficiency of the evidence. Thus, in her Opening Brief under the paragraph entitled "Prefatory Statement" (p. 4), appellant states in general terms that the trial court erroneously received "a plethora of inadmissible testimony, which reflects such fundamental disregard of established rules of evidence as to constitute prejudicial error . . ." It is true that appellant objected to almost every question asked the various witnesses, but the great majority of these objections were based on the theory that the actual negotiations of the parties were immaterial

since it was admitted that a policy was "issued". As pointed out above, such theory begged the question since it assumed that the "issuance" of the policy constituted an acceptance of Mr. Cobin's offer to purchase life insurance. This, of course, leads one back to the starting point: Did or did not Mr. Cobin make application for a "rated" policy and, if so, did he thereafter cancel or reject the policy when it was offered to him? These questions depend for their answer on the terms of the negotiations between the parties. Consequently, the trial court very properly overruled appellant's objections to the admission of evidence on this subject.

Again in her Opening Brief under the paragraph entitled "General Statement" (p. 12), appellant states:

> "This case presents the following significant issue: Where an insurance application accompanied by the initial premium has been accepted by the insurer, and a policy *conforming to said application* has been issued and delivered to the insured, may the insurer avoid liability to the Beneficiary widow upon the ground that prior to the insured's death the policy was returned to the Insurer, when prior to any communication to the insured of its acceptance of, or consent to, cancellation of the policy, and before any tender or offer to restore the premium paid had been made, the insured has died?" (Emphasis added.)

Such issue is hardly significant when it assumes one of the important questions in dispute, viz., that the policy issued by appellee conformed to the application of Mr. Cobin.

Notwithstanding appellant's attempt to classify the issues on this appeal as legal or as matters of law, the only real question presented is whether the evidence supports the findings of fact. There can be no doubt in this regard as the evidence in support of the findings is clearly substantial.

## The Pleadings.

A review of the pleadings indicates that the primary issue presented to the trial court was: Was the policy of life insurance, which was admittedly issued to Leo Cobin, ever unconditionally delivered to and accepted by Leo Cobin during his lifetime, or conversely, was said policy, when it was offered to Leo Cobin, in fact rejected and returned by him to appellee for cancellation?

As stated, this issue is essentially a factual one which was resolved against appellant by the trial court. In this regard it is most significant that both the policies and the deposit receipts [Pltf. Exs. 5 and 6; Deft. Exs. A and B] were in appellee's possession at the time Mr. Cobin died. To explain this circumstance, appellant, in her original verified complaint, alleged that after the policy had been issued it was received by Mr. Bloome and orally offered to and accepted by Mr. Cobin, but at Mr. Cobin's request, was not physically delivered into his possession [Clk. Tr. p. 2, lines 16-24].

After the deposition of Mr. Bloome had been taken by appellant and appellant discovered that prior to his death Mr. Cobin had been given temporary possession of the policies but had thereafter returned them to Mr. Bloome, appellant filed an amended complaint. In this pleading her explanation of the fact that the policies were in appellee's possession at Mr. Cobin's death was that Mr. Cobin's policy had been returned to Mr. Bloome by Mr. Cobin for the purpose of ascertaining whether appellee would permit an increase in the face amount of said policy, as of its original date of issue, from $25,000.00 to $50,000.00 [Clk. Tr. p. 19, lines 12-24]. At

the trial, Mrs. Cobin's testimony was in accord with these allegations [p. 57, line 15, to p. 59, line 22].*

By her testimony at the trial, appellant claimed to have been present both when the policies were delivered to Mr. Cobin [p. 18, line 1, to p. 20, line 8] and when they were returned by Mr. Cobin to Mr. Bloome [p. 57, line 15, to p. 59, line 22]. However, she had no satisfactory explanation for the difference in the statements in her original verified complaint and those she testified to at the trial [p. 59, line 23, to p. 69, line 14].

Both in its answer to appellant's original complaint [Clk. Tr. p. 5, line 19, to p. 6, line 22] and in its answer to appellant's amended complaint [Clk. Tr. p. 23, line 19, to p. 24, line 21], appellee denied that Mr. Cobin had accepted the policy of insurance and affirmatively alleged that Mr. Cobin had not only rejected the policy but also had returned it to appellee for cancellation after it had been offered to him. Appellee also specifically contended in its answers that Mr. Cobin's application was for a policy to be issued at standard premium rates but that the policy that was issued to Mr. Cobin was issued with a Special Class A premium rate.

---

*All references to Reporter's Transcript unless otherwise noted.

## STATEMENT OF FACTS.

Chester Bloome is a life insurance salesman employed by appellee, The Midland Mutual Life Insurance Company [p. 84, line 17, to p. 85, line 19]. His business is conducted through Sam Van Elgort who is the general agent for Midland Mutual in charge of supervising an agency staff for the purpose of selling life insurance in the Los Angeles area [p. 276, line 19, to p. 277, line 5; p. 127, line 6, to p. 128, line 12]. Neither Mr. Bloome nor Mr. Van Elgort have authority to approve applications or to issue policies of insurance, these being functions performed only at appellee's Home Office in Ohio [Pltf. Exs. 1 and 3].

Although they were not intimate friends, Mr. Bloome met plaintiff Louise L. Cobin and her husband, Leo Cobin, socially in 1950 or 1951. Sometime in April or May of 1953, Mr. Bloome first contacted Mr. Cobin with respect to life insurance. As part of his sales approach, Mr. Bloome offered to survey Mr. Cobin's insurance program and, in this connection, to audit the policies already in existence on Mr. Cobin's life. These existing policies, exceeding $95,000.00 in amount [p. 79, line 14, to p. 80, line 14], were held in companies other than Midland Mutual and were not in Mr. Cobin's possession. Consequently, several months elapsed before Mr. Bloome completed his audit for Mr. Cobin [p. 33, lines 9-24; p. 85, line 20, to p. 87, line 16; p. 180, lines 10-12].

Mr. Bloome's review of Mr. Cobin's insurance program was completed in September 1953, at which time he suggested that the Title Insurance and Trust Company make an analysis of Mr. Cobin's assets and overall estate plan. This was agreeable to Mr. Cobin, and under date of December 4, 1953, the Title Insurance and Trust Company, through Charles A. Windham, Assistant Trust Officer, submitted such an analysis to Mr. Cobin [p. 37,

line 6, to p. 38, line 17; p. 88, line 2, to p. 90, line 9; Deft. Ex. E].

Following the discussions with Mr. Windham, Mr. Bloome suggested that Mr. and Mrs. Cobin each apply for a $25,000.00 life insurance policy [p. 90, lines 10-21]. Thereafter, Mr. Bloome met with Mr. and Mrs. Cobin at their home on the evening of December 14, 1953. Mrs. Cobin testified that at this meeting her husband stated he was prepared to "go ahead" and requested that Mr. Bloome make out applications for two $25,000.00 policies, one upon his life and one upon her life [p. 39, line 10, to p. 41, line 24]. It was also her testimony that prior to the execution of the applications Mr. Cobin specifically requested and asked for a policy with a Substandard A rating, *i.e.,* one calling for higher premiums than normal [p. 43, lines 12-15]. This was denied by Mr. Bloome who testified that while he knew that certain of Mr. Cobin's other policies were rated [p. 128, line 13, to p. 130, line 5], it was Mr. Cobin's desire to make application to Midland Mutual for a standard, non-rated policy [p. 93, lines 5-18; p. 138, line 19, to p. 139, line 25].

Mr. Cobin and Mrs. Cobin each executed the first part (Part I) of separate applications for Preferred Life to 85 policies of insurance in the face amount of $25,000.00 [p. 10, line 20, to p. 12, line 4; p. 41, line 25, to p. 42, line 10; p. 91, line 12, to p. 92, line 16]. The insurance applied for as designated in question No. 12 of Part I of Mr. Cobin's application [Pltf. Ex. 1] was exactly the same as that applied for in Part I of Mrs. Cobin's application [Pltf. Ex. 3]. Although it was not disputed that Mrs. Cobin's application was for an ordinary, non-rated policy, appellant contends that Mr. Cobin's application was for a rated policy. The District Court found against this contention [Clk. Tr. p. 28, lines 6-10].

After Mr. and Mrs. Cobin signed their respective applications they gave Mr. Bloome a check for $130.00 [Pltf. Ex. 4]. Mr. Bloome testified that in return for the check he gave Mr. and Mrs. Cobin two deposit receipts [Deft. Exs. A and B; p. 97, line 12, to p. 100, line 9]. Even though these two receipts were for a total sum of $130.00 and were dated December 14, 1953, Mrs. Cobin denied receiving them or ever having seen them prior to the commencement of the within action [p. 44, line 8, to p. 45, line 22]. A physical examination of the deposit receipts themselves, however, shows that they bear the same number as Part I of the applications [Pltf. Exs. 1 and 3] and in fact were obviously torn off the bottom of Part I of the applications. Moreover, the specific instructions printed on the face of the receipts state as follows:

> "If the full first premium is paid in cash or by note this receipt must be completed and given to the applicant; IF NO SUCH DEPOSIT IS MADE, THIS RECEIPT MUST NOT BE DETACHED."

Mrs. Cobin also testified that the check for $130.00 was given to Mr. Bloome in payment of the first month's premium on the policies for which application was made [p. 12, lines 5-8; p. 13, lines 12-21; p. 42, line 11, to p. 44, line 7]. Both Part I of the applications (Question No. 20, *et seq.*) and the deposit receipts themselves, however, state that such sum was received not in payment but rather merely as a deposit to be held in escrow. In the event the policy applied for was issued, the deposit was to be applied toward payment of the first premium, and the insurance would thereby take effect retroactively, as of the date of the application. On the other hand, if the policy applied for was not issued or if a policy differing from that applied for was issued, the deposit was not to be used to put the insurance into effect immediately. In this latter case, the insurance was not to become effective until the modified policy was actually

delivered to or accepted by the applicant [Deft. Exs. A and B].

The preliminary information given to Mr. Bloome by Mr. Cobin earlier in the year indicated that Mrs. Cobin's birthdate was August 7, 1918. At the December 14, 1953 meeting, however, Mr. Bloome discovered that Mrs. Cobin was actually born one year earlier [p. 140, line 15, to p. 145, line 21]. He then determined that the monthly premium for Mrs. Cobin at her correct age would be $57.50. This figure was entered on the front page of Part I of Mrs. Cobin's application [Pltf. Ex. 3, Question 20; p. 112, lines 20-24; p. 258, lines 19-23] and on Mrs. Cobin's deposit receipt [Deft. Ex. B; p. 145, line 22, to p. 148, line 17; p. 200, line 21, to p. 202, line 7].

Mr. Cobin then expressed the thought that it might be better to pay premiums annually or semi-annually rather than monthly. At this point Mr. Bloome felt he had "made a sale" and, since the hour was getting late, was not anxious to extend the meeting unduly by recalculating premiums because he felt he thereby might possibly lose the sale. He explained that although the applications specified that premiums were to be paid monthly, Mr. Cobin could, at the time the policies were delivered, change the premium period and pay the premiums on an annual or semi-annual basis. Mr. Bloome therefore requested a check for $130.00, an estimated amount which he knew was more than enough to cover the deposit on both applications [p. 94, line 13, to p. 96, line 17; p. 148, line 18, to p. 150, line 19; p. 207, line 19, to p. 211, line 14].

The difference between the amount of the check and the monthly premium for Mrs. Cobin was $72.50. This sum did not represent the monthly premium for Mr. Cobin but was inserted by Mr. Bloome in Mr. Cobin's deposit receipt [Deft. Ex. A] as a matter of convenience

since the $130.00 was only an estimated figure [p. 199, line 16, to p. 200, line 17; p. 219, line 20, to p. 221, line 14]. Such was neither an unusual or uncommon practice under the circumstances [p. 217, line 16, to p. 218, line 17]. Mr. Bloome did not, however, enter the figure of $72.50 on the corresponding portion of Part I of Mr. Cobin's application [Pltf. Ex. 1, Question 20]. This space was left blank and the figure $69.52 was filled in later by the agency cashier [p. 111, line 15, to p. 112, line 7; p. 213, line 14, to p. 214, line 24; p. 259, lines 4-7]. This was clearly a mistake since even on a rated basis Mr. Cobin's monthly premium would have been only $66.00 [Pltf. Ex. 5; p. 312, lines 9-13].

At the conclusion of the December 14th meeting, Mr. Bloome informed the Cobins that they each would be required to take a physical examination and that he would make the necessary appointments, which was agreeable to Mr. and Mrs. Cobin [p. 42, lines 11-17]. Mr. Bloome then delivered Part I of the applications and the check for $130.00 to the Van Elgort agency [p. 100, lines 17-23]. The applications were sent to appellee's Home Office in Ohio where they were received on December 17, 1953. The check, however, was not forwarded to appellee's Home Office but was deposited in the agency's trust account [p. 293, line 20, to p. 294, line 1].

Although Part I of these applications had been signed and submitted to appellee, Mr. Cobin was, for the next seven (7) weeks undecided whether to complete the applications. It was not until January 28, 1954, that he finally agreed to have a medical examination and to complete Part II of his application which contained his statements to the medical examiner [Pltf. Ex. 2]. Mrs. Cobin did not submit to a medical examination until February 1, 1954, but Part II of her application was not introduced into evidence since it was not otherwise material [p. 48, lines 16-18].

While at the trial Mrs. Cobin disclaimed any knowledge as to why Mr. Cobin delayed the completion of the applications [p. 45, line 24, to p. 52, line 7], it was apparent that Mr. Cobin was not sure whether he really wanted the insurance and that he was considering withdrawing his application to appellee. Mr. Bloome testified that on the day following his December 14th meeting with the Cobins, he telephoned Mr. Cobin and made an appointment for him and his wife to be examined a few days thereafter [p. 101, line 17, to p. 103, line 5]. Neither Mr. nor Mrs. Cobin kept this appointment, and when Mr. Bloome inquired as to the reason, Mr. Cobin said that he was conferring with other insurance salesmen and with his attorney, Irving I. Emmer, regarding the insurance and "until he found out further, one way or the other, he wasn't going in for the examination." [p. 103, line 6, to p. 104, line 2]. Thereafter Mr. Bloome had several other conversations with Mr. Cobin concerning the medical examination [p. 107, lines 17-25; p. 223, line 11, to p. 225, line 7]. He also, by a letter dated January 11, 1954, offered to further review Mr. Cobin's insurance program [Deft. Ex. D]. Mrs. Cobin testified that she could not recall ever having seen this letter [p. 69, line 15, to p. 71, line 13].

Finally, in the latter part of January, 1954, Mr. Bloome met Mr. Cobin at the latter's place of business. He told Mr. Cobin that he had received a letter from appellee's home office [Pltf. Ex. 16] stating that the applications were being withdrawn from consideration because of Mr. and Mrs. Cobin's refusal to submit to a medical examination [p. 104, line 17, to p. 105, line 4; p. 227, line 6, to p. 228, line 20]. Faced with this ultimatum, Mr. Cobin submitted to a physical examination and completed Part II of his application on January 28, 1954 [Pltf. Ex. 2], although subsequent developments made it clear that he was still in doubt as to whether he wanted the insur-

ance. On January 29, 1954, before Part II of Mr. Cobin's application was forwarded to appellee's home office and before appellee's home office knew that Mr. Cobin had taken the medical examination, appellee's medical director wrote to Mr. Cobin and advised him that his application was being withdrawn from consideration [Deft. Ex. C].

Mrs. Cobin expressly denied that during this period Mr. Cobin had ever stated that he was not sure he wanted the insurance for which he had made application [p. 48, lines 4-8]. In adidtion to Mr. Bloome's testimony to the contrary, however, Harry N. Koff and Richard M. Grosten, both disinterested witnesses, testified that Mr. Cobin was undecided whether he should complete his applications to Midland Mutual and sought their advice on the subject.

Mr. Koff is a life insurance salesman for The Massachusetts Casualty Insurance Company of Boston [p. 158, lines 3-20]. On occasion, however, he places insurance with other companies. He knew Mr. Cobin and was familiar with his overall insurance program [p. 164, line 25, to p. 165, line 3]. He had, in fact, in 1952, sold Mr. Cobin a policy providing term insurance in the amount of $56,000.00. This policy was placed with The Manhattan Life Insurance Company through its general agent, Richard M. Grosten [p. 179, line 11, to p. 181, line 3].

In December 1953 and January 1954 [p. 172, line 10, to p. 173, line 3; p. 158, line 21, to p. 164, line 13], Mr. Koff had two or three meetings with Mr. Cobin, at one of which he testified *Mrs. Cobin* was present [p. 161, lines 1-6]. At their first meeting, Mr. Cobin outlined the insurance for which he had made application through Mr. Bloome and asked Mr. Koff how he thought it fit into his overall insurance program [p. 164, lines 12-24]. After reviewing the matter, Mr. Koff told Mr. Cobin that he could get the same benefits by simply converting

his "term" insurance with the Manhattan Life Insurance Company to an "ordinary" policy of insurance rather than accepting the new policy which he had applied for with appellee [p. 165, lines 8-24; p. 167, line 8, to p. 169, line 14].

Mr. Koff then informed Mr. Grosten that Mr. Cobin had applied for insurance with appellee and sought the best way to convince Mr. Cobin that it would be more to his advantage to convert his Manhattan policy than to accept the Midland Mutual policy [p. 165, lines 8-22]. On December 29, 1953, Mr. Grosten wrote a letter to Mr. Koff outlining the advantages of the Manhattan policy over appellee's proposed policy, which Mr. Koff showed to and discussed with Mr. Cobin [Deft. Ex. F; p. 172, line 10, to p. 173, line 3]. Mr. Koff then referred Mr. Cobin to Mr. Grosten for further discussions [p. 176, lines 12-20].

Mr. Grosten telephoned Mr. Cobin and again outlined the benefits of the Manhattan policy [p. 183, line 1, to p. 185, line 17], after which Mr. Cobin arranged a meeting between his attorney, Mr. Emmer and Mr. Grosten and himself. This meeting took place sometime in the middle of February 1954 [p. 185, line 18, to p. 187, line 20; Deft. Ex. G]. At this meeting Mr. Grosten pointed out that he and Mr. Koff had given Mr. Cobin good service which reflected credit on the Manhattan Life Insurance Company [p. 187, line 14, to p. 189, line 4] and that rather than discussing particular kinds of policies, they should consider Mr. Cobin's insurance needs in general [p. 193, line 9, to p. 194, line 10]. Mr. Koff also apparently discussed the matter with Mr. Cobin even after Mr. Cobin had submitted to the medical examination [p. 170, line 8, to p. 171, line 24].

At the trial Mrs. Cobin not only denied that she had had any conversations with Mr. Koff concerning the Midland Mutual policies but also denied that she knew

of any conversations on the subject between her husband and Mr. Koff [p. 71, line 14, to p. 72, line 23]. In addition to Mr. Koff's testimony that Mrs. Cobin was present at at least one of his meetings with Mr. Cobin [p. 161, lines 1-6], Mrs. Cobin's position was also impeached by her own testimony as contained in a deposition taken prior to the trial [p. 72, line 24, to p. 77, line 4]. It was thus established that Mr. Cobin not only considered withdrawing his application with appellee after he had executed Part I on December 14, 1953, but also after he had taken his medical examination on January 28, 1954.

On February 11, 1954 [Pltf. Ex. 9], appellee issued two $25,000.00 Preferred Life at 85 policies of insurance, one on the life of Mrs. Cobin [Pltf. Ex. 6] and one on the life of Mr. Cobin [Pltf. Ex. 5]. As indicated both on the face of the policies and in Question 19 of the respective applications [Pltf. Exs. 1 and 3], Mrs. Cobin's policy was dated as of February 6, 1954, and Mr. Cobin's policy was dated as of January 24, 1954. This was done at Mr. and Mrs. Cobin's request and in order to avoid an age change which would have occurred had the policies been dated February 11, 1954, which in turn would have required higher premiums to have been paid by the Cobins on each policy [p. 112, line 13, to p. 113, line 5; p. 384, lines 11-15].

Part I of Mr. Cobin's application [Pltf. Ex. 1] provides in part as follows:

> "This application is an offer by me for a contract of insurance, and if a deposit is made by me at the time of making this application, the insurance applied for shall not be effective unless and until the Company accepts this application *without change* at its Home Office, but if no such deposit is made, the policy, if issued, shall not take effect unless and until delivered and the full first premium paid

while I am in good health. *If the Company should issue a policy different from that hereby applied for,* or if apparent errors or omissions are found in this application, *the Company is authorized to amend this application in the space 'For Home Endorsements Only,'* and my *acceptance* of any policy issued on this application as changed shall constitute my ratification of such changes or additions, except that if required by the applicable State statute or regulations, any change as to amount, classification of risk, plan of insurance, or benefits shall be effective only upon my written agreement thereto." (Emphasis added.)

As indicated in Question 12 of their respective applications entitled "Insurance applied for:" [Pltf. Exs. 1 and 3], Mr. Cobin and Mrs. Cobin each applied for a "$25,000.00 Preferred Life to 85" policy of insurance. Nothing was stated in this space in either policy indicating that any other than the usual, non-rated policy was being applied for, and it is, consequently, clear that the applications were for insurance to be issued at standard premium rates [p. 310, lines 2-26]. Mrs. Cobin's policy, in fact, was issued at standard premium rates, and it is admitted that her policy was issued as applied for. It should also be noted in this connection that no change was recorded by appellee in Question 19 of her application entitled "For Home Office endorsements only" as would have been required by the provisions of the application above set forth had the policy not been issued as applied for [Pltf. Ex. 3]. On the other hand, Mr. Cobin's policy was not issued as applied for. It was "rated" at a Special Class A premium rate which called for higher than normal premiums. This fact was recorded by appellee in Question 19 of Mr. Cobin's application entitled "For Home Office endorsements only" by the insertion of the words "Insurance issued Special Class

A" [Pltf. Ex. 1; p. 112, lines 8-19]. In accordance with the provisions of Mr. Cobin's application above quoted and contrary to appellant's contention, Mr. Cobin's policy therefore was not effective and did not constitute a contract unless and until he accepted the policy since it differed from the one for which he had made application.

After the policies were issued, they were sent to Sam Van Elgort's agency office where they were received on Friday, February 12, 1954 [p. 294, lines 20-22]. When the policies were received, Mr. Van Elgort remitted Mr. and Mrs. Cobin's $130.00 deposit from his trust account to appellee's Home Office [p. 294, lines 2-7]. On Monday, February 15, 1954, Mr. Bloome picked up the policies and telephoned Mr. Cobin. Mr. Cobin told Mr. Bloome that he was busy and asked Mr. Bloome to bring the policies to his home [p. 108, lines 9-25; p. 294, lines 8-25; p. 232, line 19, to p. 233, line 8].

Two days thereafter, on February 17, 1954, Mr. Bloome met Mr. and Mrs. Cobin at their home where he attempted to "place" the policies. At this meeting Mr. Cobin told Mr. Bloome that he had been talking with his attorney, Mr. Emmer, and with "other insurance people" regarding the insurance. While he took possession of the policies, Mr. Cobin also told Mr. Bloome that he could not accept the policies until he had talked with his attorney further and that he would inform Mr. Bloome of his decision in this regard in a day or two. At this time, the words "Not Taken Mar. 3, 1954" were not stamped on the face of each policy [p. 109, line 3, to p. 111, line 7; p. 233, line 9, to p. 236, line 4].

On February 18, 1954, Mr. Bloome telephoned Mr. Cobin. Mr. Cobin stated that he didn't have an answer as he had not yet talked with his attorney, but that he had an appointment with Mr. Emmer and Mr. Grosten and would let Mr. Bloome know the following day [p.

113, lines 6-20]. Although Mrs. Cobin categorically denied this sequence of events, Mr. Bloome's testimony was substantiated by Mr. Grosten who testified that such a meeting had taken place [p. 185, line 18, to p. 189, line 4; p. 193, line 9, to p. 194, line 10] and by the letter Mr. Grosten wrote to Mr. Cobin on February 24, 1954, referring to such meeting [Deft. Ex. G].

On Friday, February 19, 1954, Mr. Bloome met with Mr. and Mrs. Cobin at their home. At this meeting Mr. Bloome testified that Mr. Cobin stated that he did not want either policy since his attorney had told him that he did not need additional insurance. Both policies, *together with the original deposit receipts,* were then returned to Mr. Bloome [p. 113, line 21, to p. 119, line 5; p. 236, line 5, to p. 238, line 13]. On the following Monday, February 22, 1954, Mr. Bloome delivered the policies to his agency office and requested that they be returned to appellee's Home Office in Ohio as "not taken" policies [p. 119, line 19, to p. 120, line 9; p. 312, line 22, to p. 313, line 22]. On the same day, Mr. Van Elgort sent the policies to appellee's Home Office with his letter requesting that the deposit on the first month's premium be refunded [Deft. Ex. I; p. 277, line 12, to p. 278, line 11; p. 284, line 23, to p. 285, line 10; p. 315, lines 10-21]. Mr. Bloome did not receive a commission for either of the policies issued to Mr. and Mrs. Cobin [p. 285, lines 16-19] and on March 3, 1954, Fred E. Stewart, employed by appellee at its Home Office, stamped the following words on both of the policies: "NOT TAKEN. MAR. 3, 1954" [p. 318, line 1, to p. 339, line 4]. Mr. Cobin died quite unexpectedly on March 5, 1954.

The meeting of February 19, 1954, was, of course, the crucial meeting between Mr. Cobin and Mr. Bloome. In an effort to explain the undeniable circumstance that the policies were in appellee's possession on the day of

Mr. Cobin's death, Mrs. Cobin took two different positions with respect to this meeting. In her original verified complaint she denied that such meeting had ever taken place and alleged that Mr. Cobin had orally accepted the policies but had requested that Mr. Bloome keep them in his possession [Clk. Tr. p. 2, lines 16-24]. At the trial, after Mr. Bloome's deposition had been taken and it was discovered that the policies at one time had actually been delivered into Mr. Cobin's possession, Mrs. Cobin not only admitted that the meeting of February 19th had taken place but also claimed that she had been present at this meeting. She then testified that the reason the policies were in appellee's possession when Mr. Cobin died was that he had returned them to Mr. Bloome on February 19th with the request that her policy be cancelled and his increased in amount from $25,000.00 to $50,000.00 [p. 18, line 1, to p. 20, line 8; p. 52, lines 8-24; p. 56, line 1, to p. 59, line 22]. Mrs. Cobin also denied seeing the deposit receipts [Deft. Exs. A and B] at this meeting although they, too, were in appellee's possession when Mr. Cobin died [p. 59, lines 13-17].

It cannot be questioned that Mrs. Cobin changed her position with respect to the February 19th meeting only after Mr. Bloome's deposition was taken and she learned that the policies had at one time been in her husband's possession. This was, in fact, one of the grounds upon which she relied in her original motion to file an amended complaint [Clk. Tr. p. 9] as set forth in the affidavit of Mr. Horwin in support thereof. Apparently by an oversight, Mr. Horwin's affidavit was not included in the Clerk's Transcript of Record, but because of its significance in this regard as well as with respect to appellant's contention that the trial court erred in denying her original motion to amend, it is set forth in full in the Appendix to this brief.

On March 9, 1954, four days after Mr. Cobin died, appellee's Home Office mailed a premium notice to Mr. Cobin informing him that a monthly premium of $66.00 would be due on March 24, 1954 [Pltf. Ex. 10; p. 24, line 10, to p. 25, line 13]. This evidence, appellant argued at the trial, indicated that appellee considered Mr. Cobin's policy to be in force on March 9, 1954, and therefore on the date of his death.

In rebuttal of this argument, appellee introduced evidence of the circumstances surrounding the sending of the premium notice. In this regard Mr. Fogg, employed in the Accounting Department at appellee's Home Office, testified that 15,842 premium notices were prepared and mailed by appellee during the period between February 15, 1954, and March 15, 1954 [p. 375, lines 5-7]. Because of the great number of notices, they are prepared mechanically considerably in advance of the premium due date by means of IBM tabulating equipment. The procedure involves 56 separate steps and takes over a week to complete. The notices themselves are prepared in three groups or "cycles." The third cycle includes notices for those policies having premiums becoming due between the 20th and the last day of the next following month. Each cycle is started approximately one month before the due dates so that the notices can be mailed to the policyholder not less than 15 days prior to the due date. Once the process is commenced for any one group of notices, all are carried through the entire procedure [p. 346, line 3, to p. 349, line 25].

Mr. Cobin's policy provided for monthly premiums. Therefore, assuming it had been in force, a premium would have become due on March 24, 1954. Accordingly, the process of preparing the notice that was sent to Mr. Cobin on March 9, 1954, was commenced during the week ending February 24, 1954 [p. 355, lines 1-11],

which was prior to the time appellee's Home Office had notice that Mr. Cobin had refused to accept his policy. In fact, appellee's accounting department which prepares the premium notices, did not learn that Mr. Cobin had rejected his policy until March 10, 1954 [p. 367, line 13, to p. 370, line 8; p. 372, lines 5-12]. Moreover, once the process of preparing the premium notice which was sent to Mr. Cobin was started, it was not possible to withdraw it from the group of notices being prepared [p. 375, line 25, to p. 376, line 10; p. 384, line 11, to p. 385, line 11].

Mr. Bloome first learned of Mr. Cobin's death on March 8, 1954 [p. 120, line 11, to p. 121, line 1]. Mr. Bloome testified that after the funeral he met Mrs. Cobin on three or four separate occasions. The first was in the nature of a sympathy or courtesy visit. The others occurred at approximately weekly intervals thereafter, the final one being in the latter part of March, 1954. The purpose of these visits was to sell Mrs. Cobin life insurance. In connection with these visits Mr. Bloome also sought to help Mrs. Cobin with her other policies. Mr. Bloome was not successful in his attempt to sell Mrs. Cobin additional insurance, for she declined to reapply to appellee for a policy on her life. Significantly, Mrs. Cobin did not, at any of these meetings, mention the policies that had been returned to appellee or inquire in any way about the status of Mr. Cobin's policy [p. 121, line 4, to p. 126, line 12]. At this time Mr. Bloome also told Mrs. Cobin that appellee was in the process of returning the $130.00 deposit but that the agency office was in some doubt as to whom the money should be paid in view of Mr. Cobin's sudden death [p. 125, line 13, to p. 126, line 12].

Mrs. Cobin, on the other hand, could not recall any conversation with Mr. Bloome in which he attempted to sell her life insurance [p. 83, line 20, to p. 84, line 5]. She did admit, however, that she had met Mr. Bloome on three occasions shortly after her husband's death and that, notwithstanding the fact that the subject of insurance was discussed, she had not inquired as to what had happened to the additional $25,000.00 application that her husband had supposedly requested or even asked whether Mr. Cobin's policy was going to be paid [p. 402, line 21, to p. 405, line 13; p. 80, line 15, to p. 82, line 18]. Of great significance in this regard is the further admission of Mrs. Cobin that she made no claim of any kind to appellee with respect to the policy claimed to exist on her husband's life until August 25, 1954, almost 6 months after his death [p. 82, line 19, to p. 83, line 17; Pltf. Ex. 13].

On March 30, 1954, Mr. Van Elgort wrote to Mrs. Cobin and inquired, in view of Mr. Cobin's death, whether appellee's check returning the $130.00 deposit should be made payable to her or to Mr. Cobin's estate [Pltf. Ex. 11]. After receiving no reply, Mr. Van Elgort forwarded a check for $130.00 to Mrs. Cobin on April 16, 1954, payable to the order of Louise Cobin and the estate of Leo Cobin [Pltf. Ex. 12; p. 287, lines 4-19]. Mrs. Cobin admitted receiving this check [p. 402, lines 13-15]. The trial court found that under the circumstances, appellee had returned the deposit to appellant promptly and by the use of reasonable diligence [Clk. Tr. p. 29, line 23, to p. 30, line 3].

## SUMMARY OF ARGUMENT.

While appellant seeks to classify all of the issues on this appeal as legal and argues that the District Court's findings of fact are erroneous as a matter of law, appellee contends that two questions are presented on this appeal, only one of which presents matters of law. The first is whether the evidence supports the District Court's findings of fact to the effect that appellee did not accept Mr. Cobin's application for insurance but instead modified it and issued a policy calling for higher than normal premiums and that, prior to his death, Mr. Cobin refused to accept and did reject the policy as issued. The second is whether the District Court erred in admitting certain evidence at the trial. It is only with respect to this latter issue that questions of law arise.

Appellee's argument to each of these issues is two-fold. With respect to the first issue, appellee first contends that the evidence supports the District Court's findings and that, therefore, the District Court was correct in concluding that no insurance was in effect on Mr. Cobin's life on the date of his death. In the second place, and only as an alternative argument, appellee contends that the evidence shows that the policy, assuming it to have been in force when issued by appellee, was rejected by Mr. Cobin and returned to appellee for cancellation and that, prior to his death, the policy was in fact cancelled with the consent of both parties.

With respect to the second issue, appellee contends that no error was committed by the District Court in admitting the evidence objected to by appellant since the objections were either not well taken or were based on the assumed fact that a contract existed, the very fact that was in dispute at the trial. Finally, appellee contends that if there was error committed in admitting certain evidence, it was not prejudicial and did not result in a miscarriage of justice and, therefore, that the District Court's judgment should be affirmed.

## ARGUMENT.

### I.

### The Findings of Fact With Respect to the Issues Involved Are Sufficient and Are Supported by the Evidence.

Appellant's attack upon the judgment of the trial court is basically upon the findings of fact and the supporting evidence. Much of her brief is devoted to argument of the evidence and the inferences to be drawn therefrom. More difficult to deal with is the fact that appellant has stated that to be true which is not supported by the evidence or which has been specifically found to be untrue by the trial court. Appellant's attack in this connection must fail, for the findings of fact made by the trial court are both sufficient and supported by the evidence.

#### A. A Judgment Will Not Be Reversed on the Ground That the Evidence Is Insufficient to Support the Findings Where There Is Substantial Evidence in the Record.

The rules of law with respect to the review of the evidence by the appellate court are well established and need but brief reference. Where there is substantial evidence supporting the determination of the trier of fact, the appellate court will not reverse the judgment on the ground that the evidence does not support the findings of fact.

> *Nichols v. J. J. Newberry Co.,* 150 F. 2d 15 (9th Cir., 1945);
>
> *Super Mold Corp. of California v. Bacon,* 130 F. 2d 860 (9th Cir., 1942).

On appeal, the evidence will be viewed in the light most favorable to the party who prevailed below and

every reasonable inference will be made in favor of the findings of the trial court.

> *Pasadena Research Laboratories v. United States,* 169 F. 2d 375, 380 (9th Cir., 1948);
>
> *United States v. Aspinwall,* 96 F. 2d 867 (9th Cir., 1938);
>
> *Inland Power & Light Co. v. Grieger,* 91 F. 2d 811 (9th Cir., 1937).

As was stated in *Ross v. British Yukon Navigation Co.,* 188 F. 2d 779 (9th Cir., 1951), at page 782:

> "We must assume that all conflicts in the evidence were resolved against appellants and in considering the question of sufficiency of the evidence to sustain the verdict we look to the view thereof which is most favorable to appellee and we are obliged to accept as established all facts which have reasonable support in the evidence. Appellee is entitled to all inferences which may be reasonably drawn from the circumstances in evidence."

Equally established is the rule that the appellate court will not weigh the evidence. Questions of credibility are for the trial court.

> *Adolfson v. United States,* 159 F. 2d 883 (9th Cir., 1947);
>
> *Suetter v. United States,* 140 F. 2d 103 (9th Cir., 1944).

In the case at bar, the trial court specifically found that Mr. Cobin applied for a policy to be issued at standard premium rates [Clk. Tr. p. 28, lines 2-10]; that the policy issued by appellee was not issued as applied for since it was not issued at standard premium rates but rather at a Special Class A premium rate which called for higher than the standard premiums [Clk. Tr. p. 29, lines 4-9]; and that when the policy issued by appellee

was offered to Mr. Cobin, he refused to accept it and returned it to appellee for cancellation [Clk. Tr. p. 29, lines 11-21]. These findings are abundantly supported by the record.

**B. There Is Substantial Evidence to Support the Finding That Mr. Cobin Applied for a Policy to Be Issued at Standard Premium Rates.**

The District Court found that Leo Cobin applied for a Preferred Paid-Up Life at age 85 policy of insurance, said policy to be in the face amount of $25,000.00 and to be issued at standard premium rates [Clk. Tr. p. 28, lines 2-10]. Appellant's first argument for reversal is that this finding is without evidentiary support and "is negatived by the overwhelming weight of the evidence" (A. O. B.* pp. 19-21). In support of this argument, appellant makes the following statements of fact, which she contends are supported by the record:

1. Mrs. Cobin testified that her husband wanted a substandard A rating and that Mr. Bloome told Mr. Cobin he felt sure appellee would give him such rating.
2. Mr. Bloome knew that all of Mr. Cobin's existing insurance was rated.
3. The following words were incorporated in Part I of Mr. Cobin's application: "Present rating on most recent *policies* Substandard A."
4. The sum of $69.58 appears on the face of Part I of Mr. Cobin's application under Question 20.
5. The monthly premium for Mr. Cobin at standard rates would have been $59.50.

Appellant argues that these facts compel the conclusion that Mr. Cobin applied for a substandard policy. Appellant, however, has omitted all reference to the evidence

*Appellant's Opening Brief.

which is unfavorable to her position and, in part, has incorrectly summarized the evidence presented to the trial court.

The first item of evidence relied upon by appellant is her testimony that her husband wanted a substandard A rating and that Mr. Bloome told Mr. Cobin he felt sure appellee would give him such rating. While it is true that appellant so testified [p. 41, lines 9-24], appellant has omitted reference to Mr. Bloome's testimony to the contrary in which he stated that Mr. Cobin only wanted to make application for an ordinary life policy [p. 93, lines 5-18; p. 138, line 19, to p. 139, line 25]. At best, therefore, a conflict in the evidence was presented which was resolved against appellant by the trial court.

The second and third items of evidence relied upon by appellant have been incorrectly stated. Appellant claims that Mr. Bloome knew that all of the existing insurance on Mr. Cobin's life had been issued at substandard rates and that Mr. Bloome wrote on Mr. Cobin's application, "Present rating of most recent *policies* Substandard A." Mr. Bloome did not so testify. He testified only that he knew that *some* of the policies were substandard [p. 129, lines 14-24]. Moreover, the application of Mr. Cobin does not refer to "policies" but rather to a single "policy" as having been rated [Question 11; Pltf. Ex. 1].

More important in this regard is Part I of the application itself [Pltf. Ex. 1]. Question 6 asks whether the applicant ever had any insurance that was "rated up." This question was answered "yes." Question 11 states, "If answer to Questions 6, 7, 8 or 9 is 'yes,' state full particulars here." Mr. Bloome then filled in the following: "6. Present rating on most recent *policy* Substandard A." It is quite clear that this is merely a recital of fact given in response to Question 6 and is

not, as appellant implies, a request for a policy with a substandard rating.

Appellant has completely omitted reference to Questions 12 and 18. Question 12 is entitled "Insurance applied for:" following which were inserted the words, "Preferred Life to 85." Question 18 is entitled "Special requests, etc." but was left blank. These are the only parts of the application involving in any way the kind or type of insurance for which application was made, yet nothing was there included indicating that any other than the usual, non-rated policy was being applied for. Furthermore, Mr. Cobin's application in this regard was exactly the same as Mrs. Cobin's [Pltf. Ex. 3; Questions 12 and 18] and it is admitted that Mrs. Cobin's application was for a policy to be issued at standard premium rates. Her policy, in fact, was issued at standard rates.

The only other reference in Mr. Cobin's application to substandard insurance is contained in space 19 entitled, "For Home Office endorsements only." Then follows the notation, "Insurance issued Special Class A." These words were inserted at appellee's Home Office [p. 112, lines 8-19] in accordance with the last sentence of the printed portion of Mr. Cobin's application providing that if appellee issued a policy different from that applied for, the modification should appear as such in Question 19. In this regard, the application provides:

> "If the Company should issue a policy different from that hereby applied for . . . the Company is authorized to amend this application in the space 'For Home Endorsements Only', and by acceptance of any policy issued on this application as changed shall constitute my ratification of such changes or additions. . . ."

Appellant next argues that since the monthly premium for Mr. Cobin at standard rates would have been $59.50

versal is that this finding "is in direct opposition to the evidence adduced" (A. O. B. pp. 21-22).

This argument is nothing more than a restatement of appellant's first argument for reversal, *i.e.*, that there is no evidence to support the finding that Mr. Cobin applied for an ordinary, non-rated policy. Appellant again contends that the reference to a substandard A policy in Question 11 of Mr. Cobin's application [Pltf. Ex. 1] indicates that Mr. Cobin applied for a rated policy. As pointed out in Section I. B. of this brief, the answer to Question 11 is merely a recital of fact given in response to the question asked in Question 6. As such it in no way referred to the type of policy being applied for by Mr. Cobin and the District Court was justified in so finding.

Appellant also states that Mr. Bloome asked for a premium payment of $69.52 rather than $59.50 which would have been called for had Mr. Cobin applied for a standard rating. Again, this argument was made by appellant in its first point for reversal and was answered by appellee in Section I. B. of this brief. Briefly put, the fact is that Mr. Bloome did not ask for $69.52 but rather for $72.50. The latter amount was the difference between the deposit on Mrs. Cobin's policy and the Cobin's check for $130.00. The sum of $72.50 was entered on Mr. Cobin's deposit receipt for convenience since the $130.00 amout was not meant to be exact. The figure of $69.52 was not entered on the face of Mr. Cobin's application by Mr. Bloome but rather was entered by the cashier at Mr. Bloome's agency office. The figure is completely unrelated to any other fact in this case and was obviously a miscalculation on the part of the cashier.

Appellant next contends that since Mr. and Mrs. Cobin's $130.00 deposit was remitted to appellee's Home Office by Mr. Van Elgort when the policies were first received, Mr. Cobin's application must have been for a substandard policy for otherwise there would have been

no authority to remit a premium based on a Special Class A rating. Such argument is not compelling in view of Mr. Van Elgort's immediate request to return the deposit after learning that Mr. Cobin had refused to accept the policies [Deft. Ex. I; p. 277, line 12, to p. 278, line 11; p. 284, line 23, to p. 285, line 10].

In further support of her argument, appellant states that an inter-office communication dated February 11, 1954, between two of appellee's officials [Pltf. Ex. 9] shows that the application of Mr. Cobin was approved "as made." This is a gross misstatement of the evidence as a review of the exhibit in question will demonstrate. The document only states that, "We have now been able to complete these applications and they have been approved today." Mr. Cobin's application shows on its face in Question 19 that appellee did not approve the application "as made" but instead modified it with the notation, "Insurance issued Special Class A" [Pltf. Ex. 1].

Appellant's final contention in support of her second argument for reversal is that there is not "a scintilla of evidence" that Mr. Cobin ever objected to the issuance to him of a substandard policy. This argument is completely beside the point for under appellee's theory Mr. Cobin refused to accept the policies on the ground that his attorney had told him that he did not need additional insurance [p. 113, line 21, to p. 114, line 10; p. 236, line 5, to p. 237, line 18]. The question of the premium rate, therefore, was not in issue and there was no reason to discuss it [p. 235, lines 1-13].

Appellant's second argument for reversal is the same as her first and is to the effect that the uncontroverted evidence is "irreconcilable" with the trial court's finding that Mr. Cobin applied to appellee for a non-rated policy of insurance. Appellee met this argument in detail in the preceding section of this brief (Sec. I. B.), and no useful purpose would be served to repeat it here. The

conclusion, however, is the same: From appellant's standpoint the evidence is, at best, conflicting. The District Court resolved the conflicts in appellee's favor, and it is clear that the court's determination finds abundant support in the record.

**D. There Is Substantial Evidence to Support the Finding That Mr. Cobin Refused to Accept the Policy Offered by Appellee and That He Returned the Same to Appellee for Cancellation.**

The District Court found that in the middle part of February, 1954, appellee offered the policy of insurance as issued to Leo Cobin, but that Leo Cobin refused to accept and did reject said policy of insurance and returned the same to appellee for cancellation [Clk. Tr. p. 29, lines 11-21]. Appellant's third argument for reversal is an attack on this finding (A. O. B. pp. 23-32), the exact basis of which is not clear. Appellant implies in the title to her argument that the finding is erroneous because of the "uncontroverted evidence." In the last sentence of her argument, however, appellant concludes that the finding is erroneous "as a matter of law." The body of appellant's argument consists of a conglomeration of points and doctrines, not one of which is applicable to the case at bar.

The key to appellant's argument, perhaps, is found in the first paragraph of her brief on page 23. There she states most emphatically that the District Court erred because it failed to recognize "that appellee, having accepted Mr. Cobin's application at its home office and having issued its policy, had caused, at that moment, a completed contract of insurance to come into existence." From this premise appellant then argues that neither delivery of the policy to nor acceptance of the policy by Mr. Cobin was necessary to give effect to the contract of insurance. Appellant's reasoning is fallacious for the

simple reason that the major premise employed assumes as established the very facts which the District Court found were not true, *i.e.,* that by approving Mr. Cobin's application appellee accepted Mr. Cobin's offer to purchase insurance. As pointed out above, the District Court expressly found that appellee did not accept Mr. Cobin's offer but in fact modified his application and issued a policy different from the one for which he had applied [Clk. Tr. p. 29, lines 4-9].

To the extent that appellant's third argument for reversal begs the question by assuming that the policy issued by appellee was the same as the one Mr. Cobin applied for, it is but a restatement of her first two arguments for reversal and needs no further answer here. For two reasons, however, rebuttal is appropriate to appellant's contention that the District Court erred as a matter of law in finding that Mr. Cobin refused to accept the policy as issued. First, the case law relied upon by appellant is not applicable to the facts of this case, and second, there is, in fact, substantial evidence to support the District Court's finding.

### 1. The Case Law Relied Upon by Appellant Is Not Applicable to the Facts of This Case.

On pages 25, 30 and 31 of her brief appellant cites fifteen cases in support of the principle that neither delivery of the policy to nor acceptance of the policy by the applicant is essential to create a contract of insurance where the first premium is paid and the insurer accepts the application. Not one of these cases, however, is in point on this appeal.

In the first place, many of the cases relied upon by appellant have no factual application at all to the case at bar. For example, appellant relies upon *Fageol T. & C. Co. v. Pacific Indemnity Co.,* 18 Cal. 2d 731, 117 P. 2d 661 (1941). This case involved automobile insur-

ance, not life insurance, and the court expressly stated that California law was not applicable as the events occurred in Washington (p. 737). There the purchaser of a truck under a conditional sales contract applied for and was issued a policy of collision insurance which was payable "as interests may appear." It is well established that in this kind of insurance the proceeds of the policy are payable in proportion to the equities of the conditional seller and purchaser as they exist on the date of the loss. After the truck had been damaged, the seller brought suit to recover on the policy. The insurer denied liability on the ground that the policy was never accepted by the seller. In dicta, which is the part relied upon by appellant, the court said that acceptance was not necessary since there was a *custom and practice* established in this type of insurance which made it effective without acceptance (p. 739). The actual holding of the case, however, was simply stated by the court at page 740: "But the ingenious argument of appellant that Fageol (the seller) never accepted the policy is beside the point . . ." since, as the negotiations were between the insurer and the buyer, there was nothing for the seller to accept.

The case of *Penn. Threshermen, etc. Ins. Co. v. Carter,* 197 Va. 776, 91 S. E. 2d 429, also relied upon by appellant, is similarly distinguishable. There the court merely held that a policy of automobile insurance, renewing a previous policy, need not be delivered in order to be effective where the evidence showed that it was the company's custom to renew policies automatically and to extend credit for the first premium. It seems obvious that cases involving this kind of insurance have no bearing upon the principles applicable to life insurance. Such policies are issued only for a short period and are governed in large part by customs and practices not applicable to life insurance.

The cases relied upon by appellant for the proposition that acceptance of the policy by the applicant is not necessary to the formation of contract are distinguishable on a second and more significant ground. In each of the fifteen cases cited by appellant it appeared that the company, in accepting the application, issued a policy *exactly as applied for*. The decisions in these cases, therefore, go no further than holding that an application is an offer to purchase insurance and that a contract arises if and when the insurer accepts the offer by issuing a policy in the same terms as the application. Since the trial court found as a fact that appellee did not accept Mr. Cobin's application and did not issue a policy in the same terms as his application, it is clear that no contract of insurance came into existence by the mere "issuance" of a policy of insurance by appellee.

That the fundamental principles of contract law are applicable to life insurance contracts is a fact which has apparently been overlooked by appellant. As was stated by the California Supreme Court in *Linnastruth v. Mut. Benefit Etc. Assn.*, 22 Cal. 2d 216, 137 P. 2d 833 (1943), at page 219:

> "An application for insurance is a proposal. A meeting of the minds is essential. And the proposal is not a completed contract until it is accepted by the insurer in the same terms in which the offer was made. If the acceptance modifies or alters any of the terms of the proposal, it must then in turn be accepted by the applicant to be effective as a contract."

This principle was early established as the law of California in *Yore v. Bankers' Life Assn.*, 88 Cal. 609, 26 Pac. 514 (1891), where the court held at page 612:

> "A policy which in its terms is different from the application is not a completed contract, and until accepted by the insured is no more than a proposal to contract, upon the terms stated in it."

*Accord:*

*Westerfeld v. New York Life Ins. Co.,* 129 Cal. 68, 74-76, 61 Pac. 667 (1900).

Where the issue has arisen in other jurisdictions, the law is the same:

*Kinney v. Northern Life Ins. Co.,* 200 Wash. 190, 93 P. 2d 360 (1939);

*McDonald v. Mut. Life Ins. Co. of N. Y.,* 108 F. 2d 32 (1939);

*Morford v. Western States Life Ins. Co.,* 166 Ore. 575, 113 P. 2d 629 (1941);

*Kronjaeger v. Travelers Ins. Co.,* 124 W. Va. 730, 22 S. E. 2d 689 (1942).

Equally applicable to the case at bar are the cases holding that the insurer has no right to retain the premium submitted with an application where it issues a policy differing from the one specified in the application and the applicant refuses to accept the policy as issued. Under these circumstances no contract of insurance exists and the applicant is entitled to the return of the money tendered to the insurer.

*La Marche v. New York Life Ins. Co.,* 126 Cal. 498, 58 Pac. 1053 (1899);

*Firpo v. Slyter,* 95 Cal. App. 500, 504, 272 Pac. 1111 (1928).

The trial court found that Mr. Cobin applied for a non-rated policy but that appellee issued a rated policy. Under the authorities above cited, appellee's action constituted both a rejection of Mr. Cobin's offer to purchase insurance at standard rates and a counter-offer to insure him at substandard rates. Mr. Cobin's acceptance of the policy offered, therefore, was absolutely necessary to the creation of a valid contract.

In addition to relying on case law, appellant also contends that the language of the Part I of Mr. Cobin's application obviated the necessity of a delivery to or acceptance by Mr. Cobin of the policy issued by appellee. The terms of Mr. Cobin's application, however, are entirely in accord with the District Court's conclusion that an acceptance by Mr. Cobin of the policy offered to him by appellee was a prerequisite to the formation of a contract. The application in effect states that it is an offer to purchase insurance; that no insurance shall be in effect unless and until the application is accepted without change by the Company at its Home Office; and that if a different policy is issued than the one applied for, the applicant's acceptance of the policy shall constitute his ratification of the change. The provision in question reads [Pltf. Ex. 1]:

> "I have read all of the foregoing statements, representations and answers and declare that they are each and all full, true and correct. If a policy is issued hereon, the complete application, Parts I and II, and such policy shall constitute the entire contract. This application is an offer by me for a contract of insurance, and if a deposit is made by me at the time of making this application, the insurance applied for shall not be effective unless and until the Company accepts this application without change at its Home Office, but if no such deposit is made, the policy, if issued, shall not take effect unless and until delivered and the full first premium paid while I am in good health. If the Company should issue a policy different from that hereby applied for, or if apparent errors or omissions are found in this application, the Company is authorized to amend this application in the space 'For Home Endorsements Only', and my acceptance of any policy issued on this application as changed shall constitute my

of a final contract or the termination of the temporary contract occurred.

> *Ostroff v. New York Life Ins. Co.,* 194 F. 2d 986 (9th Cir., 1939);
>
> *Standard Acc. Ins. Co. v. Winget,* 197 F. 2d 97, 99 (9th Cir., 1952);
>
> *Ruklin v. New York Life Ins. Co.,* 304 U. S. 202, 205 (1938).

In *Leube v. Prudential Ins. Co.,* 72 N. E. 2d 76 (Ohio 1947), the issue presented by appellant's argument was squarely presented. There the applicant paid the first premium and received a receipt, the terms of which the court held gave rise to an immediate contract of temporary insurance. Ten days later the application was rejected by the company at its home office. Thereafter, but before notice of the rejection was given to the applicant, the applicant died. On these facts the court held that no contract of insurance existed after the application was rejected and that it was therefore error not to grant the insurer's motion for a directed verdict.

While this case involved an outright rejection, there is no question that the same rule would be applied where the insurer rather than rejecting the application, issued a different policy from that specified in the application. Such is clear from the fact that the court relied almost entirely on the case of *Corning v. Prudential Ins. Co. of America,* 288 N. Y. Supp. 661, affd. 8 N. E. 2d 338 (1937), where it appeared that the company issued a policy calling for a larger premium than the policy applied for. Before the new policy was offered to the applicant, the applicant died. Even though the policy had been sent to the soliciting agent, the New York court held that no contract of insurance was in existence. As the ground for its decision the court stated that the insurance was conditioned upon the company's approval, which

not only was never given, but was declined with reasonable promptness. As an additional reason for the decision, the court held that the substituted contract was never accepted by the applicant.

It is thus clear that under any theory no insurance existed on Mr. Cobin's life at the date of his death. If it be assumed that his application was merely an offer to purchase insurance, then the issuance by appellee of a policy which materially differed from the policy applied for constituted a counteroffer which under the general rules of the law of contracts amounted to a rejection of the application. If, on the other hand, it be assumed that Mr. Cobin's application gave rise to immediate insurance on a conditional basis the moment it was executed and a premium deposit made, then the issuance of a different policy by appellee amounted to a rejection of the application and the termination of the temporary insurance. Under either theory, Mr. Cobin's acceptance of the substituted policy was required for the ultimate formation of a contract of insurance.

> *Mutual Life Ins. Co. v. Young,* 23 U. S. 85 (1875);
>
> *Mohrstadt v. Mutual Life Ins. Co.,* 115 Fed. 81 (8th Cir., 1902);
>
> *New York Life Ins. Co. v. Levy,* 92 S. W. 325 (Ky. 1906);
>
> *Boswell v. Gulf. Life Ins. Co.,* 29 S. E. 2d 71 (Ga. 1944).

The facts presented in the case at bar are even stronger than those involved in the above cases, which hold that there is no existing contract where a policy differing from that applied for is issued even though the applicant is unaware of the change and has no opportunity to accept or reject the substituted policy. Here, the District Court found as a fact that Mr. Cobin refused to accept the

policy offered to him by appellee and returned it to appellee for cancellation. The evidence clearly supports this finding and shows that Mr. Cobin, for reasons intimate to himself, decided that he did not need or want the additional insurance.

2. The Evidence Supports the Finding That Mr. Cobin Refused to Accept the Policy Offered to Him by Appellee.

The policy on Mr. Cobin's life was admittedly issued. It was not, however, issued as applied for, but rather was issued as a "rated" policy requiring higher than standard premiums. If it is true, as the District Court found, that Mr. Cobin refused to accept the policy, for whatever reason, it is equally true that the policy was not in force at the time of his death. The question presented, consequently, is a factual one.

> *Silver v. New York Life Ins. Co.,* 116 F. 2d 59 (7th Cir., 1940).

The evidence supporting the District Court's finding that Mr. Cobin rejected the policy offered to him by appellee is outlined in detail in the part of this brief entitled "Statement of Facts" and is quite voluminous. It shows that after Mr. Cobin executed Part I of his application on December 14, 1953, he entertained grave doubt as to whether he wanted any additional insurance at all. He refused for seven weeks to take a physical examination or complete Part II of his application. Mr. Bloome testified that during this period Mr. Cobin told him that he was conferring with his attorney and other insurance salesmen regarding his application to appellee and "until he found out further, one way or the other, he wasn't going in for the examination." [P. 103, line 6, to p. 104, line 2].

Finally, in the latter part of January, 1954, Mr. Bloome told Mr. Cobin that he had received a letter from ap-

pellee's home office [Pltf. Ex. 16] stating that his application was being withdrawn from consideration because of his refusal to submit to a medical examination [p. 104, line 17, to p. 105, line 4; p. 227, line 6, to p. 228, line 20]. Faced with this ultimatum, Mr. Cobin submitted to a physical examination and completed Part II of his application on January 28, 1954 [Pltf. Ex. 2].

While Mrs. Cobin testified that Mr. Cobin had never stated that he was not sure he wanted the insurance for which he had made application to appellee [p. 48, lines 4-8], both Mr. Koff and Mr. Grosten testified to the contrary. In December 1953 and January 1954 [p. 172, line 10, to p. 173, line 3; p. 158, line 21, to p. 164, line 13], Mr. Koff had two or three meetings with Mr. Cobin, at one of which he testified Mrs. Cobin was present [p. 161, lines 1-6]. At their first meeting, Mr. Cobin outlined the insurance for which he had made application and asked Mr. Koff how he thought it fit into his overall insurance program [p. 164, lines 12-24]. Mr. Koff told Mr. Cobin that he could get the same benefits by simply converting his existing term insurance with the Manhattan Life Insurance Company to an ordinary policy rather than accepting the new policy he had applied for with appellee [p. 165, lines 8-24; p. 167, line 8, to p. 169, line 14].

Thereafter both Mr. Koff and Mr. Grosten discussed insurance with Mr. Cobin [Deft. Ex. F; p. 170, line 8, to p. 173, line 3; p. 176, lines 12-20; p. 183, line 1, to p. 185, line 17]. The last meeting with Mr. Grosten took place in the middle of February, 1954, at the office of Mr. Cobin's attorney [Deft. Ex. G; p. 185, line 18, to p. 187, line 20].

On February 15, 1954, Mr. Bloome received the policies issued by appellee and on February 17, 1954, offered them to Mr. Cobin. Mr. Cobin took physical possession of the policies but said that he could not accept them until he had talked further with his attorney [p. 109, line 3, to p. 111, line 7; p. 223, line 9, to p. 236, line 4]. On February 19, 1954, Mr. Cobin returned the policies, together with the original deposit receipts [Deft. Exs. A and B], to Mr. Bloome and told him that his attorney had advised him that he did not need the additional insurance [p. 113, line 21, to p. 119, line 5; p. 236, line 5, to p. 238, line 13].

The policies, of course, were in appellee's possession at the time Mr. Cobin died. It was this circumstance that undoubtedly caused Mrs. Cobin to allege in her original verified complaint that the policies had never been physically delivered to Mr. Cobin [Clk. Tr. p. 2, lines 16-24] and then, after discovering that Mr. Cobin at one time had had possession of the policies, to testify that they were returned with the request that hers be cancelled and his increased in amount from $25,000.00 to $50,000.00 [p. 18, line 1, to p. 20, line 8; p. 52, lines 8-24; p. 56, line 1, to p. 59, line 22].

The force of all of the above evidence almost compels the conclusion that Mr. Cobin, after making application to appellee, decided that he actually did not need or want the additional insurance and therefore that he refused to accept the policies when offered to him by Mr. Bloome. In any event, the evidence is clearly sufficiently substantial to justify the District Court in so concluding.

**E. The District Court Did Not Err in Declining to Find That Appellee's Consent to the Cancellation of the Policy Had to Be Communicated to Mr. Cobin.**

The District Court also found that on April 16, 1954, appellee tendered to appellant the monies deposited with it at the time Leo Cobin executed Part I of his application, that the tender was refused by appellant and that the tender, under the circumstances of this case, was made promptly and by the use of reasonable diligence [Clk. Tr. p. 29, line 23, to p. 30, line 3]. Appellant contends that these findings are erroneous because "appellee had not effected any valid cancellation of the Policy during Mr. Cobin's lifetime" (1) since it had not communicated its consent to a cancellation of the policy to Mr. Cobin prior to his death and (2) since it had not restored the deposit it had received to Mr. Cobin prior to his death (A. O. B. pp. 32-42).

The primary fallacy of this contention is that it begs the question by assuming that a contract of insurance was in existence and was effective unless cancelled. Such premise has no factual basis since, as previously pointed out, the trial court specifically found that no contract of insurance ever arose between Mr. Cobin and appellee. For this reason alone, therefore, appellant's contention may be disregarded as unmeritorious.

Assuming, however, and only for the purpose of argument, that a contract of insurance was at one time in effect between Mr. Cobin and appellee, both the evidence and the trial court's findings show that it was cancelled by appellee at the request of Mr. Cobin. In this regard the trial court found that when the policy was offered to Mr. Cobin, he refused to accept it and returned it to appellee for cancellation [Clk. Tr. p. 29, lines 11-14]. As heretofore demonstrated, the evidence clearly supports this finding and shows that Mr. Cobin did not want the policy offered to him by appellee. It also shows

that Mr. Cobin manifested in every way possible his consent to the cancellation of the policy. It is uncontroverted that appellee also consented to the cancellation for on March 3, 1954, it caused the policy to be cancelled and stamped "Not Taken. Mar. 3, 1954." [p. 318, line 1, to p. 339, line 4]. This, of course, occurred prior to the death of Mr. Cobin and under the provisions of Section 1699 of *Civil Code of California,* extinguished the obligations of the contract. This statute provides:

> "The destruction or cancellation of a written contract, or of the signature of the parties liable thereon, with intent to extinguish the obligation thereof, extinguishes it as to all the parties consenting to the act."

One of the points made by appellant in support of her argument that no cancellation of the policy was effected during Mr. Cobin's lifetime is that, at most, Mr. Cobin merely offered to cancel the policy and appellee did not accept the offer since it did not communicate its acceptance to Mr. Cobin prior to his death. It must first be noted that this contention is directly opposite and contrary to the basic position taken by appellant with respect to the creation of a contract of insurance. In this respect she argues that Mr. Cobin's application was an offer to purchase insurance, that appellee accepted the offer by approving the application and issuing a policy, that a contract of insurance sprang into existence at the "very moment" that the policy was issued and that a communication of appellee's acceptance of Mr. Cobin's offer was, consequently, unnecessary.

Equally fatal to appellant's argument is the fact that she has improperly classified Mr. Cobin's conduct as an "offer" to cancel the policy. Such is not the case under any theory. A policy of life insurance is not a bilateral contract. It is a unilateral contract since the

policyholder incurs no duty to pay premiums. The company promises to continue the insurance in force so long as the insured pays his premiums, but the insured neither expressly nor impliedly promises to pay premiums. The insured, therefore, by his own act alone, can terminate the contract by simply refusing to pay premiums or by expressing his intent that the policy is to be terminated.

In the case at bar, Mr. Cobin expressed his intent that the policy was to be cancelled and in fact demanded the return of his deposit [p. 114, lines 21-22]. By the nature of things, appellee was in no position to refuse to cancel the policy since there was no obligation on the part of Mr. Cobin to continue the policy in force. There was, therefore, no "offer" for appellee to accept. To hold otherwise would be to require the doing of a useless and idle act which the law does not require (Civ. Code, Sec. 3532).

While appellee did not actually return the deposit monies to appellant until April 16, 1954, Mr. Bloome told Mr. Cobin, at the time Mr. Cobin gave him back the policies, that appellee would return the deposit [p. 114, lines 21-23]. Mr. Cobin died shortly thereafter and Mr. Bloome then attempted to have Mrs. Cobin reapply to appellee for insurance on her life. During these negotiations Mr. Bloome told Mrs. Cobin that appellee was in the process of returning the deposit but that the agency office was in some doubt as to whom the money should be paid in view of Mr. Cobin's sudden death. At this time Mrs. Cobin made no objection in this regard [p. 121, line 4, to p. 126, line 12]. When it became apparent that Mrs. Cobin did not wish to reapply to ap-

pellee for insurance, Mr. Van Elgort wrote to her and inquired whether the deposit should be returned to her or to Mr. Cobin's estate [Pltf. Ex. 11]. No reply was received and a check was then sent to Mrs. Cobin on April 16, 1954 [Pltf. Ex. 12; p. 287, lines 4-19; p. 402, lines 13-15]. Under these circumstances the District Court was justified in finding that the deposit was returned timely.

Appellant also cites several cases involving liability or indemnity insurance to support her contention that Mr. Cobin's life insurance policy was never effectively cancelled. Policies of liability insurance, however, are unlike life insurance contracts since they are issued for a specified premium and for a specified period of time. They also provide by their terms for cancellation by the company upon the giving of notice to the insured. Accordingly, the cases relied on by appellant hold only that no valid cancellation of such a policy is effected by the insurer until notice thereof is actually given to the insured. The principle of these cases has no application to the instant case which involves life insurance. Here, moreover, it was not appellee that sought to cancel the policy but rather the insured himself.

Appellee does not believe that the issue of cancellation is presented in this case since no subsisting contract ever existed between the parties and appellee so stated to the trial court [pp. 30-33]. Appellee did, however, raise the issue in its answer as an alternative contention [Clk. Tr. p. 24, lines 12-16]. It is pursued on this appeal in the alternative, it being appellee's primary position that no contract of insurance ever arose between it and Mr. Cobin.

**F. The District Court Did Not Err in Concluding That No Contract of Insurance Existed Between Mr. Cobin and Appellee.**

At pages 42 and 43 of her brief, appellant states that the District Court erred in concluding that no contract of insurance existed between appellee and Mr. Cobin and in failing to find that a policy of life insurance had in effect been issued and delivered to Mr. Cobin prior to his death. No argument is made in support of these contentions other than the reference to appellant's previous arguments which have heretofore been answered by appellee.

At the top of page 43, appellant sets forth the evidence favorable to her and in effect argues that the weight of the evidence is contrary to the trial court's findings. One statement by appellant requires comment. Appellant states that appellee's own record card shows that the policy lapsed March 10, 1954, five days after Mr. Cobin's death, the implication being that appellee considered the policy in force until March 10, 1954. It is true that the card bears the mark, "Lapsed, March 10, 1954" [Deft. Ex. M], but appellant has failed to set forth the testimony of the witness through whom the record card was introduced. He testified that the mark on this card indicated only that appellee's accounting department had received notice that Mr. Cobin had refused to take the policy on March 10, 1954, and that on that date had marked its records accordingly [p. 357, line 5, to p. 361, line 8; p. 367, line 13, to p. 371, line 7]. In truth, therefore, the notations relied on by appellant not only do not support her position but rather support the findings and conclusions of the District Court.

## II.

## The District Court Did Not Err in Its Rulings Made on the Admission of Evidence.

Appellant next contends that the District Court made several prejudicial errors in its rulings with respect to the admission of evidence. Appellant's contentions in this regard, however, are not well taken for they are based on an improper classification or misinterpretation of the character of the evidence offered.

### A. The District Court Did Not Err in Admitting Parol Evidence of the Negotiations Between the Parties.

Appellant first argues that the trial court erred in admitting parol evidence of the negotiations between the parties because "a policy of insurance had been issued which contains no ambiguity, required no interpretation and had superseded prior negotiations" (A. O. B. pp. 46-55). This argument, like the parol evidence rule itself, presupposes that a valid and subsisting contract does in fact exist between the parties. As in her contentions with respect to the sufficiency of the evidence to support the findings, appellant again has assumed as true the very fact that was in issue at the trial, *i.e.,* whether a contract did exist.

It seems obvious that the parol evidence rule has no application to the situation here presented since the existence of a contract must be established before the rule is applicable, and here the court found that none existed. The applicable code section makes this clear by expressly excepting the situation, "Where the validity of the agreement is the fact in dispute" (Code Civ. Proc., Sec. 1856(2)).

By its terms Mr. Cobin's application was only an offer to purchase insurance. Appellee denied that this offer was ever accepted. It was held in *Lawrence v. Premier*

*Indem. Assur. Co.,* 180 Cal. 688, 182 Pac. 431 (1919), that the parol evidence rule has no application to such situation. In this regard the court held at page 698:

> "So far as the 'parol evidence' rule goes, the essential distinction between a writing which purports to be a proposal merely and one which purports to be a contract of the parties is that the first does not purport to be the written memorial of both parties as to their understanding and the second does, with the necessary result that in the latter case, but not the former, the writing and nothing else is to be taken as expressing the contract."

*Griffith v. Bucknam,* 81 Cal. App. 2d 454, 458-459, 184 P. 2d 179 (1947);

*Wise v. Collins,* 121 Cal. 147, 150, 53 Pac. 640 (1898).

**B. The District Court Did Not Err in Admitting the Testimony of Richard Grosten and Sam Van Elgort.**

Appellant next contends that the trial court erred in admitting certain of the testimony of Mr. Grosten and Mr. Van Elgort (A. O. B. pp. 55-77). It is, however, impossible to determine the basis of appellant's contentions with respect to Mr. Grosten. Appellant states that he was allowed to testify to conversations he had with business associates of his own company (citing R. 183 and 180), but the record reveals that Mr. Grosten only testified to conversations he had with Mr. Cobin [p. 179, line 11 to p. 189, line 25].

This testimony was clearly relevant as it established that Mr. Cobin was in fact considering withdrawing his application for insurance to appellee even prior to the

time the policy was offered to him. It was also competent since it concerned admissions on the part of Mr. Cobin. In this connection, C. C. P. Section 1870 provides:

> ". . . evidence may be given upon a trial of the following facts . . .
>
> 2. The act, declaration, or omission of a party, as evidence against such party;
>
> 3. An act or declaration of another, in the presence and within the observation of a party, and his conduct in relation thereto; . . ."

While Mr. Cobin was not a party to the action, his admissions were admissible as against appellant, the beneficiary of the policy sued upon.

> *McEwen v. New York Life Ins. Co.*, 23 Cal. App. 694, 139 Pac. 242 (1914).

Appellant also contends it was prejudicial error to allow Mr. Van Elgort to testify that Mr. Bloome did not receive a commission on the policy issued to Mr. Cobin and to identify a letter he wrote to appellee's home office requesting the return of the money he sent to appellee when the policies were first received in his agency office [Deft. Ex. I]. This contention is not well taken. Both items of evidence showed a course of conduct on the part of appellee prior to trial which was consistent with the position it took at the trial, i.e., that Mr. Cobin had rejected the policy offered to him by appellee. On the other hand, appellant introduced certain evidence tending to show that appellee had conducted itself in a manner inconsistent with the position it took at the trial, for example, that appellee had mailed Mr. Cobin a premium notice after Mr. Cobin had returned the policies to Mr. Bloome.

Under such circumstances it is well established that where one party introduces evidence tending to show prior inconsistent acts or statements on the part of his adversary, the adversary may introduce evidence of prior consistent acts or statements in rebuttal and by way of rehabilitation.

> *Brickford v. Mauser,* 53 Cal. App. 2d 680, 128 P. 2d 79 (1942);
>
> *Davis v. Tanner,* 88 Cal. App. 67, 262 Pac. 1106 (1927).

Moreover, the letter of Mr. Van Elgort's [Deft. Ex. I], was also properly received to establish when appellee's home office received notice that the policies were being returned and as such did not constitute hearsay evidence.

> *Smith v. Whittier,* 95 Cal. 279, 30 Pac. 529 (1892).

**C. The District Court Did Not Err in Admitting the Testimony of Fred Stewart and Harold Fogg.**

Appellant's next contention is that the trial court erred in admitting the testimony of Mr. Stewart and Mr. Fogg (A. O. B. pp. 57-64). Mr. Stewart's testimony, like the letter Mr. Van Elgort wrote on February 22, 1954 [Deft. Ex. I], tended to establish when appellee's home office first received notice that Mr. Cobin had rejected the policy offered to him. It also demonstrated that appellee "cancelled" the policy on March 3, 1954, two days before Mr. Cobin died [p. 318, line 1 to p. 339, line 4]. The testimony of Mr. Fogg explained the circumstances surrounding appellee's mailing a premium notice to Mr. Cobin on March 9, 1954. It showed that appellee's premium notice department did not know that Mr. Cobin's policy had been cancelled until March 10, 1954, and that

even if it had learned of such fact earlier, it would have been impossible to withdraw Mr. Cobin's notice because of the great number of notices sent out by appellee [p. 346, line 3 to p. 349, line 25; p. 367, line 13 to p. 376, line 10; p. 384, line 11 to p. 385, line 11].

Appellant argues that this evidence was improperly received because (1) it constituted evidence of appellee's general business custom or usage, uncommunicated to Mr. Cobin, which could not be admitted to alter the obligations of a contract, (2) it constituted hearsay and self-serving declarations, and (3) it was based on surmise and conjecture since appellee had no record of the premium notices sent to Mr. Cobin. This line of argument is groundless for it improperly classifies the character of Mr. Stewart's and Mr. Fogg's testimony.

It is true that appellee had no individual record concerning when premium notices were sent out with respect to Mr. Cobin's particular policy [p. 350, lines 16-23], but it was for this very reason that the District Court allowed Mr. Stewart and Mr. Fogg to base their testimony, at least in part, on the customary practices and usages employed by appellee in sending out premium notices. In this regard, evidence of the habit or custom of a business house of doing certain acts in the transaction of its business is admissible to prove that such act was done on a particular occasion and to explain the circumstances surrounding the doing of the act.

> *Hughes v. Pacific Wharf Co.,* 188 Cal. 210, 205 Pac. 105 (1922);
>
> *American Can Co. v. Agricultural Ins. Co.,* 27 Cal. App. 647, 150 Pac. 966 (1915);
>
> *Shearer v. Pac. G. & E. Co.,* 43 Cal. App. 2d 306, 309, 110 P. 2d 690 (1941).

It is quite clear that the testimony here involved was not elicited to establish the nature of appellee's business

customs and practices as an end in itself but rather was used as a basis to establish when and under what circumstances the premium notice of March 9, 1954, was sent to Mr. Cobin. In this respect it was but a form of circumstantial evidence and was properly admitted. The cases cited by appellant on pages 61 and 62 of her brief are relied upon for the proposition that evidence of custom or usage in the insurance business may not be used to vary the terms of a contract. Since neither the testimony of Mr. Stewart nor the testimony of Mr. Fogg concerned custom or usage as such, these cases have no application to the case at bar.

There can be no doubt either that this testimony was properly received to explain the circumstances surrounding the sending of a premium notice to Mr. Cobin on March 9, 1954. Appellant introduced the notice and testified to its receipt as part of her case in chief [Pltf. Ex. 10; p. 24, line 12 to p. 25, line 13]. This, appellant argued, constituted an act or declaration on the part of appellee indicating that Mr. Cobin's policy was in force on March 10, 1954 [p. 420, lines 16-25]. Since, however, appellant introduced this evidence as part of her case, appellee had the right to introduce evidence, by way of explanation, of all of the circumstances surrounding the sending of that premium notice. This is made clear by Code of Civil Procedure, Section 1854, which provides:

> "When part of an act, declaration, conversation, or writing is given in evidence by one party, the whole of the same subject may be inquired into by the other; when a letter is read, the answer may be given; and when a detached act, declaration, conversation, or writing is given in evidence, any other act, declaration, conversation, or writing, which is necessary to make it understood, may also be given in evidence."

This rule applies even though evidence of the surrounding circumstances is itself hearsay or self-serving.

*Davis v. Sturgis,* 142 Cal. App. 2d 840, 299 P. 2d 408 (1956);

*Brooks v. Willig Truck Co.,* 40 Cal. 2d 669, 676, 255 P. 2d 802 (1953).

Similarly, to the extent that Mr. Stewart's and Mr. Fogg's testimony concerned when the home office of appellee first received notice that Mr. Cobin had refused to accept the policy offered to him, no hearsay or self-serving evidence was involved.

*Smith v. Whittier,* 95 Cal. 279, 30 Pac. 529 (1892).

**D. The District Court Did Not Err in Admitting Evidence That Mrs. Cobin Had Conferred With an Attorney.**

Appellant contends that on several occasions appellee attempted to elicit communications between Mrs. Cobin and her attorney and that the trial court erred in admitting evidence of such communications (A. O. B. pp. 64-68). In support of this contention, appellant quotes incomplete portions of the record which, appellant states, shows that the trial court "entertained little regard for the attorney client privilege."

There are several answers to this argument. In the first place, appellee did not seek to elicit the communications themselves but rather only the fact that a communication had occurred. This was made clear by appellee's counsel at several points in the record [p. 64, lines 19-20, 22-23; p. 396, lines 10-12]. While the communication itself may be privileged, the fact that a communication was made is not privileged. As was said in the *Estate of Pusey*, 180 Cal. 368, 181 Pac. 648 (1919), concerning the husband-wife privilege, "We think, therefore, that the purpose of the inquiry being to show the

act of communicating and not the disclosures involved in the communications, the testimony does not come within the inhibition of the statute."

*Tanzola v. De Rita,* 45 Cal. 2d 1, 7, 285 P. 2d 897 (1955);

*Muller-Johnson Co. v. Penn. Mut. Life Ins. Co.,* 2 Fed. Supp. 203 (D. C. Cal., 1933).

This is also the rule in other jurisdictions where the issue has been raised. In *Sampson v. Sampson,* 112 N. E. 84 (Mass. 1916) it was held that both the fact that a conversation took place and the action taken by the party after the conversation were admissible, and further, that the court might properly draw inferences from the fact of the communication and the action taken as a result thereof.

*Houghton v. Aetna Life Ins. Co.,* 73 N. E. 592 (Ind.);

*Breisenmeister v. Supreme Lodge,* 45 N. W. 977 (Mich.);

*Price v. Standard Life,* 95 N. W. 1118, 1120 (Minn.);

*Patten v. United Life,* 31 N. E. 342, 343, (N. Y.).

In the second place, even if it assumed that the questions propounded here sought to elicit, not the communications themselves, but the general subject matter of the communication, it was within the trial court's sound discretion to determine whether the question was improper under all of the circumstances.

*Holm v. Superior Court,* 42 Cal. 2d 500, 507, 267 P. 2d 1025 (1954).

In the case at bar, the questions involved no more than what was alleged by appellant as being true in her original verified complaint and later denied under oath at

the trial. As such, they related only to what was a matter of public record, and, in fact, part of the present proceedings.

Finally, it must be noted that appellant has carefully omitted certain portions of the record in setting forth the testimony claimed to be improper. Appellant refers to three groups of questions, the first of which refers to questions propounded Mrs. Cobin and which commence at page 63, line 12 and end at page 67, line 4 of the transcript. Appellant has quoted only a portion of this testimony [p. 64, line 5 to p. 65, line 21], and of this portion has not indicated that lines 3-8 on page 65 were omitted. This latter part established that the witness did not in fact answer the question. Moreover, if the whole portion of this record is read [to p. 65, line 21], it will be discovered that Mrs. Cobin never did testify with respect to any communications with her attorney.

The other two groups of questions referred to by appellant are in reality only one continuous line of questioning and relate to the testimony of Mr. Emmer [p. 395, line 5 to p. 399, line 17]. Appellant has not quoted, however, the portion of the record in which her own counsel asked Mr. Emmer the same type of question that she now claims appellee erroneously asked [p. 397, lines 7-12].

When the whole record is read, it is clear that the trial court did not err in allowing appellee to establish that Mrs. Cobin did in fact confer with her attorney prior to the filing of her original verified complaint. The fact that the communication took place was not privileged and demonstrated that Mrs. Cobin completely reversed her position after learning that her husband actually received physical possession of the policies for a short period. Moreover, to the extent that her own counsel asked a similar question of Mr. Emmer, appellant waived any complaint of error that might be involved.

### E. The District Court Did Not Admit Evidence Outside the Issues of This Case.

Appellant's final contention with respect to the trial court's rulings on the admission of evidence, is that the court admitted a "welter of evidence" which was outside the issues of this case. (A. O. B. pp. 68-69). Appellant cites no authority in support of this argument but instead lists six items claimed to have been erroneously received. In rebuttal, appellee will simply list the items in order and point out their relevance as it pertains to this case.

First, the planning memorandum prepared by the trust company for Mr. Cobin [Deft. Ex. E]. This document was neither offered nor received to prove the truth of any of the statements contained therein, as was expressly pointed out at the trial [p. 89, line 23 to p. 90, line 4].

Second, Mr. Bloome's letter to Mr. Cobin dated January 11, 1954 [Deft. Ex. D, p. 106]. Appellant refers to this as a letter referring to an appointment for a medical examination, but it is not. Having been directed to Mr. Cobin, it was admissible as an admission and tended to show, in view of the other evidence, that Mr. Cobin was undecided whether to complete his application to appellee.

Third, a conversation between Mr. Bloome and Mrs. Cobin after Mr. Cobin's death [p. 123, line 12 to p. 126, line 12]. At this conversation Mr. Bloome attempted to have Mrs. Cobin reapply to appellee for insurance on her own life. Although insurance was discussed, Mrs. Cobin at that time made no inquiry with respect to Mr. Cobin's alleged policy nor did she then claim that his policy had been returned to be increased from $25,000.00 to $50,000.00. Such was both relevant and admissible as an admission by silence on the part of Mrs. Cobin.

Fourth, a conversation between Mr. Koff and Mr. Cobin stated to have occurred a year before the transaction here involved [p. 160, line 14 to p. 166, line 4].

This conversation did not occur a year prior to the transaction here involved but actually occurred just after Mr. Cobin executed his application. Appellant has again misstated the record in this regard, for Mr. Koff testified that the conversation occurred in December 1953 or January 1954 [p. 163, line 11 to p. 164, line 5]. Moreover, the content of the conversation also establishes that it occurred after Mr. Cobin executed his application. In this respect, Mr. Koff testified that Mr. Cobin stated that appellee had offered him an ordinary life contract and asked how he felt it fit into his overall insurance program. Mr. Koff told Mr. Cobin that he could get the same benefits by converting his present contract with the Manhattan Life Insurance Company rather than applying to appellee [p. 164, line 14 to p. 166, line 4]. This evidence was relevant and demonstrated Mr. Cobin's indecision with respect to the insurance offered by appellee.

Fifth, a letter from Mr. Grosten to Mr. Koff dated December 29, 1954, with regard to why Grosten thought Mr. Cobin should keep his Manhattan policy rather than take appellee's policy [Deft. Ex. F]. This letter was clearly relevant for the same reasons as was Mr. Koff's conference with Mr. Cobin. It was admissible because it was shown to and discussed with Mr. Cobin [p. 172, line 24 to p. 173, line 5].

Sixth, Mr. Grosten's testimony concerning the nature and type of the Manhattan policy [pp. 180, 189]. As this was a policy on Mr. Cobin's life, and in fact the one Mr. Cobin was considering utilizing instead of appellee's, its nature was relevant to the issues of this case.

As a review of the above items of evidence demonstrates, no error was committed in admitting the testimony and exhibits referred to into evidence, and appellant's argument to the contrary is completely unjustified, whether the items are considered individually or as a whole.

**F. Notwithstanding Appellant's Voluminous Objections, No Prejudicial Error Was Made by the District Court in Its Rulings on the Evidence.**

Substantially half of the record in this case is devoted to the objections of appellant to the introduction of evidence. A good portion of these were overruled since they were clearly based on a misconception of the law and the assumption that a valid and subsisting contract of insurance was in force on Mr. Cobin's life on the date of his death. The latter, however, was the very fact in issue at the trial as is shown by the pleadings. The District Court determined the matter unfavorably to appellant and did so on substantial evidence.

In submitting its arguments for reversal, appellant has often omitted reference to certain portions of the record and incorrectly stated certain other portions of the record. A careful reading of the whole record will show that the errors complained of by appellant are non-existent. Even if it be assumed that errors were committed, they clearly were neither substantial nor prejudicial. F.R.C.P. Rule 43 (a) favors the admission of evidence and if any doubt exists, the doubt should be resolved in favor of its reception.

> *Builders Steel Co. v. Commissioner,* 179 F. 2d 377, 379 (8th Cir., 1950);
>
> *Grandin Grain & Steel Co. v. U. S.,* 170 F. 2d 425 (1948);
>
> *Utah State Farm v. Union Service,* 198 F. 2d 20 (1952).

## III.

## The District Court Did Not Err in Denying, Without Prejudice, Appellant's Original Motion to File an Amended Complaint.

Appellant's final contention is that the District Court erred in denying her original motion to file an amended complaint. (A. O. B. p. 70). Appellant states that the District Court did so upon "appellee's suggestion" that no objection would be made to an amended complaint which alleged a redelivery to Mr. Bloome and that appellant, consequently, was "obliged" to incorporate an allegation in her second amended complaint that Mr. Cobin's policy was returned to appellee for the purpose of having the policy increased from $25,000.00 to $50,000.00.

Except for the inference that she was forced to plead something she did not want to plead, appellant's contention is moot since the District Court denied appellant's original motion without prejudice and, subsequently, granted her second motion to amend. [Clk. Tr. p. 21]. Moreover, the District Court's action in this regard was purely in accordance with the affidavit of Mr. Horwin filed in support of appellant's original motion. (Appendix). This affidavit stated the amendment was requested on the ground that it was "necessary, and in the interests of the trial of the cause" that the "complaint be amended to show the facts disclosed" which, the affidavit stated, were that appellant contended that Mr. Cobin's policy was returned to appellee "for the purpose of having the policy increased in amount from $25,000.00 to $50,000.00." Notwithstanding these statements in Mr.

Horwin's affidavit, the amended complaint offered for filing did not contain these facts.

This affidavit, as well as appellant's testimony at the trial [p. 57, line 15 to p. 59, line 22], clearly establishes that appellant was not, against her wishes, "obliged" to allege facts she did not want to allege.

## Conclusion.

In the section entitled "General Statement" of her Opening Brief (pp. 12-14), appellant attacks the insurance business in general and calls upon the Court to reverse the District Court's decision which she describes as "a retrogressive application of elementary principles of insurance law, and which invites once again judicial supervision over practices and procedures of insurance companies which can only undermine the confidence of the public and the efficacy of the insurance contract as an instrument of protection rather than a snare for the deluded." Such statements have no place in this appeal for the plain fact is that Mr. Cobin just didn't want the insurance that was offered to him. This was a decision Mr. Cobin made after many consultations not only with other independent insurance salesmen but also with his own attorney.

Appellee did not and has not engaged in any untoward practices or procedures requiring supervision by the judiciary or otherwise, nor does appellee now seek to relieve itself from liability by reliance upon a technical interpretation of a provision in an insurance policy. Moreover, this is not a situation where it can be argued that the layman would normally feel that he was protected. Cer-

tainly Mr. Cobin was not deluded. He was a successful businessman capable of making important decisions. Before he made application to appellee for insurance, his entire estate was analyzed by the Title Insurance and Trust Company. After he made application for the insurance in question, he discussed his overall insurance program with Mr. Koff, Mr. Grosten and even his attorney, Mr. Emmer. Mr. Cobin then, for reasons intimate to himself, decided he did not need or want additional insurance and therefore declined the policy offered by appellee. Hindsight reveals nothing more than that his decision was unfavorable from his standpoint.

Under the circumstances here presented, the District Court properly concluded that no contract of insurance existed between appellee and Leo Cobin at the date of his death. Appellee accordingly urges this Honorable Court to affirm the judgment of the District Court.

Respectfully submitted,

Adams, Duque & Hazeltine,
*Attorneys for Appellee.*

Henry O. Duque,
James S. Cline,
*Of Counsel.*

# APPENDIX.

## Affidavit of Leonard Horwin

State of California, County of Los Angeles—ss.

Leonard Horwin, being first duly sworn, states:

At all times since on or about August 21st, 1956, your affiant was and now is one of the attorneys for the plaintiff in this action.

In the course of preparation of this case for trial, your affiant has discovered that on or about the middle of February, 1954, subsequent to the issuance by defendant of Policy No. 243,946 upon the life of Leo Cobin, the deceased, said Policy was in fact delivered by said defendant to the deceased; thereafter, on or about the latter part of February, 1954, the deceased delivered the aforesaid Policy to Chester Bloome, Agent for the defendant, for the purpose of having the Policy increased in amount from $25,000.00 to $50,000.00.

The aforesaid facts, disclosed in part, by the Deposition taken of Chester Bloome on October 6th, 1956, were fully brought out at the Deposition taken of the plaintiff December 11th, 1956.

In view of the foregoing discovery, it is necessary, and in the interests of trial of the cause upon the merits, that Paragraphs 4 and 5 of the Complaint be amended to show the facts as thus disclosed.

The present time is the earliest practicable time for plaintiff to make said Amendment, based upon said discovery of facts, and no prejudice results to defendant.

WHEREFORE, your affiant prays for an Order granting leave to the plaintiff to file her First Amended Complaint in the form as annexed hereto.

s/LEONARD HORWIN
LEONARD HORWIN

Subscribed and sworn to before me this 17th day of December, 1956.

RICHARD KELTON
*Notary Public in and for said County and State*

# No. 15,629.

IN THE

# UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT.

LOUISE L. COBIN,
*Appellant,*

vs.

MIDLAND MUTUAL LIFE INSURANCE COMPANY,
a Corporation, *Appellee.*

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL DIVISION.

## APPELLANT'S OPENING BRIEF.


LEONARD HORWIN,
HORTENSE STAHL,
121 South Beverly Drive,
Beverly Hills, California,
*Attorneys for Appellant.*

ERICH AUERBACH,
*Of Counsel.*



E. L. MENDENHALL, INC., 1108 Oak Street, Kansas City 6, Mo., HArrison 1-3030

## INDEX

TABLE OF CASES

## TEXTS AND STATUTE CITED

# No. 15,629.

IN THE

# UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT.

LOUISE L. COBIN,
*Appellant,*

vs.

MIDLAND MUTUAL LIFE INSURANCE COMPANY,
a Corporation, *Appellee.*

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL DIVISION.

## APPELLANT'S OPENING BRIEF.

I.

## JURISDICTIONAL STATEMENT.

This is an appeal from a judgment of the United States District Court for the Southern District of California, Central Division, entered on April 11, 1957 (C. T. 31-32).*

*For the convenience of the Court, references to the Transcript prepared by the Clerk will be designated "C. T." References to the Reporter's transcript will be designated by the letter "R".

The first amended complaint alleges that appellant is a citizen of the State of California, and that appellee is a citizen of the State of Ohio, and that the matter in controversy exceeds, exclusive of interest and costs, the sum of $3,000.00 (C. T. 23). The Court found in accord with that allegation (C. T. 27).

The jurisdiction of the District Court was based upon Section 1332 of Title 28, United States Code. The jurisdiction of this Court is based upon Section 1291 of Title 28 of the United States Code.

II.

## PROCEEDINGS BEFORE TRIAL.

### 1. Statement of the Pleadings.

On January 3, 1956, appellant filed a complaint to recover as beneficiary under a life insurance policy issued on the life of her deceased husband, Leo Cobin (C. T. 1-4). Appellant alleged that the said policy had been delivered to defendants' agent, Chester Bloome, and that appellant's husband had accepted said policy (C. T. 2).

Appellee's answer denied liability on the ground that said policy was never accepted by Mr. Cobin and no delivery thereof to him was ever accomplished (C. T. 5-8).

On December 18, 1956, appellant noticed a motion for leave to file a first amended complaint (C. T. 8). Concurrently therewith, appellant lodged with the Clerk of the Court her proposed amended complaint (C. T. 10-12). Paragraph IV of the amended pleading as proposed alleged

that the insurance policy issued by appellee was delivered to Mr. Cobin in February, 1954 (C. T. 11).

Said motion was heard on January 7, 1957 (R. 1a-13a). By supporting affidavit and upon argument of said motion, appellant's counsel advised the Court that at the taking of the deposition of appellee's agent, Bloome, it had been ascertained that the policy was delivered personally by Bloome to Cobin (R. 2a-3a).

Appellee resisted appellant's motion and objected to the filing of the amended complaint unless appellant added an allegation that the policy on Mr. Cobin's life had been re-delivered by Cobin to Bloome (R. 4a-7a). Over appellant's objection, the Trial Court suggested to appellant's counsel that the Court would deny the motion so that counsel could comply with appellee's views (R. 7a). Appellant's counsel pointed out that the burden did not lie with appellant to make such allegation, on the ground that redelivery of the policy to the insurer was a matter of defensive pleading (R. 8a-9a). Notwithstanding this, the Trial Court refused to permit the amended pleading as lodged with the Court to be filed unless appellee's proposed changes were incorporated into appellant's pleading (R. 8-17a). The Court thereupon denied appellant's motion (C. T. 13).

On February 18, 1957, the Court granted appellant leave to file a first amended complaint (C. T. 21), appellant having revised her complaint to conform to the objections raised by appellee and sustained by the Court (C. T. 18-20). Thereafter appellee filed its answer to the first amended complaint (C. T. 23).

### 2. The Interrogatories.

On February 18, 1957, appellee filed notice of the taking of deposition on written interrogatories of Fred E. Stewart and Harold J. Fogg (C. T. 15-16h). Appellant filed notice to strike certain of the proposed interrogatories and to limit the scope of examination (C. T. 17-17t). On February 17, the Court overruled appellant's objections (C. T. 21).

During the trial, the above depositions upon written interrogatories were introduced in evidence despite proper objection as to the admissibility of that evidence (R. 318 *et seq.*; R. 340 *et seq.*). The prejudicial character of the Court's erroneous rulings in that regard will be discussed in the subsequent argument.

## III.

## STATEMENT OF THE CASE.

### 1. Prefatory Statement.

Detailed statements of fact which are pertinent to the several arguments made below will be given under their separate headings to facilitate reference. This is especially true with regard to numerous rulings of the Court on the subject of its erroneous receipt of a plethora of inadmissible testimony, which reflects such fundamental disregard of established rules of evidence as to constitute prejudicial error and makes a reversal of the decision mandatory to obviate a miscarriage of justice. The following outline of the case is, therefore, a general statement giving the background of the controversy and significant evidence.

## 2. Facts.

In 1953 and 1954, one Chester Bloome was employed as a life insurance agent by Midland Mutual Life Insurance Company, the appellee herein (R. 84). Bloome worked as a solicitor of life insurance out of the office of the Van Elgort Agency in Beverly Hills, California (R. 85). Van Elgort was the general agent for appellee, Midland Mutual Life Insurance Company (R. 276).

In April or May, 1953, Bloome approached appellant's late husband, Leo Cobin, for the purpose of selling him some life insurance (R. 86). After having the policies already in existence on Mr. Cobin's life analyzed (R. 87), Bloome suggested that appellant and her husband, Mr. Cobin, each apply for a policy of life insurance in the amount of $25,000.00 (R. 90).

In compliance with Bloome's recommendation, Mr. and Mrs. Cobin proceeded to make separate applications to appellee for life insurance in the amount of $25,000.00 each (R. 91-92). Bloome called at the home of Mr. and Mrs. Cobin with the insurance applications, and both Mr. and Mrs. Cobin completed Part I for a policy of insurance designated as Preferred Life to 85 in the face amount of $25,000.00 on December 15, 1953 (R. 91-92; Pl. Ex. 1; Pl. Ex. 3).

Bloome knew that various other life insurance companies had issued policies to Mr. Cobin with sub-standard ratings, and that in the period immediately preceding his application he had asked certain of those companies to improve his rating to sub-standard A and that he had gotten that rating (R. 129-130). Bloome told Mr. Cobin he was sure appellee would give him a comparable rating (R. 41).

In this connection, Bloome incorporated into paragraph 11 of Part I of Mr. Cobin's application the following statement:

> "Present rating of most recent insurance policies sub-standard A" (Pl. Ex. 1).

After the separate applications for life insurance in the amount of $25,000.00 were signed by Mr. and Mrs. Cobin, Bloome was given a check for $130.00 to pay the combined cost of the first month's premiums (R. 42; Pl. Ex. 4). This check covered a monthly premium cost of $57.50 for appellant (R. 207) and a monthly premium of $69.52 for Mr. Cobin on the basis of a sub-standard rate (R. 220-221). The balance of the check represented a premium overpayment (R. 199; R. 214). Had Mr. Cobin applied for a standard rate policy as distinguished from a sub-standard rate, the premium on a monthly basis would have been $59.50 rather than the amount charged (R. 221). In point of fact, the $69.52 charged as the first month's premium for Mr. Cobin was an overcharge by $3.52 because of a miscalculation of Bloome (Pl. Ex. 1, agent's certificate, par. 19) or by Van Elgort's cashier (R. 312). As appears from the face of the policy as issued, the monthly premium to be paid was $66.00 (Pl. Ex. 5).

Appellant testified she received no deposit slip at the time of payment by check (R. 44-45). Bloome testified he issued separate receipts for $57.50 for appellant and $72.50 for Mr. Cobin, although the latter's premium payment was calculated only at $69.52 (R. 217). Bloome testified that the figure of $69.52 which appears in paragraph 20 of part one of the application form signed by Mr. Cobin was not

inserted at the time the application was signed, but was entered thereon by a cashier in his office subsequently (R. 213-214; R. 259; Pl. Ex. 1).

Bloome delivered appellant's premium check for $130.00 to the Van Elgort Agency, together with the signed applications (R. 100). The premium was held by Van Elgort in his trust account as appellee's general agent until the issued policies were delivered to him in February by appellee (R. 293-294). Thereupon, Van Elgort remitted the premiums from his trust account to appellee's Home Office (R. 294).

On February 11, 1954, appellee issued to both Mr. and Mrs. Cobin a policy of life insurance in the face amount of $25,000.00 on each of their lives (R. 384; Pl. Exs. 5 and 6). Van Elgort received from appellee the two policies of life insurance for $25,000.00 issued to appellant and her husband on February 12, 1954, and they were picked up by Bloome on February 15, 1954 (R. 294). As appears from plaintiff's Exhibit 1, appellee's Home Office inserted the words "insurance issued special class A" in paragraph 19 of Mr. Cobin's application form (R. 112; Pl. Ex. 1), the precise rating applied for by Mr. Cobin, Special Class A being the same as substandard A indicated in Paragraph 11 of Part I of Mr. Cobin's application (R. 136; Pl. Ex. 1). The substandard A or Special Class A rating both rank next to the standard rating in the scheme of insurance ratings (R. 137).

That the policy was issued as applied for clearly appears from the letter of February 11, 1954, from H. E. Brown, appellee's underwriter, to Fred Stewart, one of ap-

pellee's officials, which states, in part: "We have been able to complete these applications, *and they have been approved today* * * *" (Pl. Ex. 9).

On February 17, 1954, Bloome delivered the two policies issued by appellee on the life of Mr. and Mrs. Cobin to Mr. Cobin (R. 110; Pl. Exs. 5 and 6). The policies were enclosed in black leather portfolios embossed with the names of appellant and her deceased husband (Pl. Exs. 7 and 8; R. 18-19).

Although Bloome testified that Mr. Cobin informed him that he could not accept the policies until he decided whether he wanted the insurance, Bloome nevertheless left the policies with Mr. Cobin (R. 110). Bloome testified that on February 19, 1954, he visited Mr. Cobin and was advised by him that Mr. Cobin was not going to take the policies (R. 114). Bloome testified that Mr. Cobin returned the policies and the Deposit receipts to him and requested the return of the check (R. 114).

Appellant testified that when Bloome delivered the policies to Mr. Cobin at their home, Mr. Cobin advised Bloome that he appreciated getting the policy that he had applied for and that he would get in touch with Mr. Bloome with respect to additional insurance (R. 56). She testified that several days later Bloome visited their home in respect to a call from Mr. Cobin (R. 57). She testified as follows to the conversation that took place between her husband and Mr. Bloome:

> "My husband told Mr. Bloome that he had decided to make a change or two, that in thinking over his purchase with him, that he had decided that a much wiser

purchase would be a $50,000 policy on himself and that he wanted him to cancel my policy; that he would like, if possible, $25,000 additional insurance added to his original $25,000 that he had. He asked him if it would be possible to date that, the second $25,000 on his life back to the date of the original $25,000 that had been issued in January.

"He told Mr. Bloome that he felt that it would be safer coverage, much better protection for myself and for the children in doing that, that in the event of my death that while it would be a serious family loss, it would not be a financial loss, and in case of his death, there would be both, both the personal and a very serious financial loss." (R. 58).

Bloome stated he would see if he could arrange this through his office and he picked up the policies (R. 58 and 59).

Mr. Cobin died on March 5, 1954 (R. 10; R. 121). At the time of his death, appellee continued to retain the premiums which had been paid for the insurance and made no offer to render back such premium until March 30, 1954, twenty-five (25) days after Mr. Cobin's death (Pl. Ex. 11) and did not return the premiums until April 16, 1954 (Pl. Ex. 12). In the letter of March 30, 1954, Mr. Van Elgort wrote to appellant that the policies were returned for cancellation (Pl. Ex. 11).

However, on March 9, 1954, four days after Mr. Cobin's death, appellee sent Mr. Cobin a notice informing him that the next premium of $66.00 was due on March 24, 1954 (R. 24-25; Pl. Ex. 10).

Van Elgort testified that he sent the Cobin policies back to appellee's Home Office (R. 277). Over objections on the ground that it constituted inadmissible hearsay, appellee was permitted to introduce a letter dated February 22, 1954, from Van Elgort to appellee's Home Office asking for a return of the premium and Bloome's commission on the sale (R. 278; Def. Ex. "I"). Again over objection, the deposition upon written interrogatories of appellee's employee, Fred Stewart, was introduced in evidence, in which he testified that in processing Mr. Cobin's policy at appellee's Home Office he stamped on "Not Taken March 3, 1954" on that date (R. 324; R. 326). However, there was introduced in evidence a photostatic copy of appellee's policy record card, on the backside of which there is recorded the following information with respect to termination of the policy: "Lapsed, March 10, 1954" (Def. Ex. M; R. 360). It is important to observe that Exhibit M contains the further notation "Redelivered for Cancellation", and the words "Not Taken March 3, 1954", *are stricken* and on the left hand side appears the legend "Lapsed March 10, 1954". Also, printed thereon, appear the words "TERMINATION MARCH 10, 1954". The significance of these items will be developed in a subsequent part of this brief.

Appellant never accepted appellee's belated offer to return the premium and filed with appellee a demand for payment under Mr. Cobin's policy on August 25, 1954 (Pl. Ex. 13). That demand was rejected by appellee (R. 28).

### 3. Summary of Findings.

In its Findings of Fact, the District Court found as follows:

(1) That Mr. Cobin applied for a Preferred Paid Up Life at age 85 policy of insurance in the face amount of $25,000, to be issued at standard premium rates (C. T. 28).

(2) That the payment of $130.00 made at the time of the execution of the application for life insurance by Mr. and Mrs. Cobin was not given in payment of premiums on the policies of insurance for which application was made, but was given to Appellee only as a deposit to be applied toward payment of the first premium which would be due under the terms of the contracts of insurance ultimately agreed upon by the parties (C. T. 28).

(3) That Appellee issued its Preferred Paid Up Life at age 85 Policy of Insurance upon the life of Mr. Cobin in the face amount of $25,000.00, with Appellee as Beneficiary on or about February 11, 1954; that said policy was not issued as applied for, by Mr. Cobin, in that Mr. Cobin's application was for a policy to be issued at a standard premium rate, and the policy issued by Appellee was not a standard premium rate policy, but was issued at a Special Class A premium rate which was greater than the Standard Premium Rate (C. T. 29).

(4) That in the middle of February, 1954, Appellee offered said policy to Mr. Cobin, but Mr. Cobin refused to accept and rejected said policy and returned it to Appellee for cancellation (C. T. 29).

(5) That Leo Cobin died on March 5, 1954; that on April 16, 1954, Appellee tendered to Appellant the monies

deposited by Mr. Cobin at the time he executed his application and that tender was refused by Appellant; that said tender was timely and promptly made (C. T. 29-30).

(6) That since February, 1954, and until the time of trial, Appellee was in possession of the insurance policy on Mr. Cobin's life and during said period refused to issue or deliver any policy of insurance on Mr. Cobin's life and has denied liability under said policy (C. T. 30).

In its conclusions the trial court concluded:

1. That although Appellee issued its policy on February 11, 1954, to Leo Cobin, said policy was not accepted by Leo Cobin, and was in fact rejected by Leo Cobin, and returned to Appellee for cancellation prior to his death (C. T. 30-31).

2. That at the date of Leo Cobin's death no contract of insurance existed between Appellee and Leo Cobin (C. T. 30).

3. That Appellee is entitled to judgment and that Appellant take nothing by reason of her Complaint, except the sum of $130.00 (C. T. 31).

Thereupon judgment was entered in favor of Appellee (C. T. 31), from which judgment this Appeal has been taken (C. T. 32).

### 4. General Statement.

This case presents the following significant issue: Where an insurance application accompanied by the initial premium has been accepted by the insurer, and a policy conforming to said application has been issued and deliv-

ered to the insured, may the insurer avoid liability to the Beneficiary widow upon the ground that prior to the insured's death the policy was returned to the Insurer, when prior to any communication to the insured of its acceptance of, or consent to, cancellation of the policy, and before any tender or offer to restore the premium paid had been made, the insured has died?

Appellant submits that the evidence establishes as a matter of law that the policy in question was in full force and effect at the time of Mr. Cobin's death, that any purported offer on Mr. Cobin's part to have the policy cancelled was revoked by his death before acceptance of such offer by the insured, and that the insured's office notation on the policy, "not taken March 3, 1954", uncommunicated to the insured during his lifetime and unaccompanied by any restoration, or offer to restore, the premium, is of no legal effect or significance. This being so, Appellant contends the judgment herein is erroneous, being based on critical findings that are unsupported by the evidence and further contends that erroneous ruling on admissibility of evidence and a serious misconception of the law by the trial court contributed vitally to the ultimate error reflected in the judgment.

The Courts have been a principal agency for the supervision of business morality and ethics in the community. The abuses which have characterized the erstwhile catch-as-catch-can business of selling insurance, which have all too frequently in the past resulted in illusory contracts and unprotected risks because of the unequal bargaining power of the parties has given way to

an enlightened policy of strict enforcement of an insured's right to the protection which he has seemingly purchased and for which he has usually paid in advance.

Appellant believes that this Appeal constitutes a compelling occasion for judicial rectification of a decision which represents a retrogressive application of elementary principles of insurance law, and which invites once again judicial supervision over practices and procedures of insurance companies which can only undermine the confidence of the public and the efficacy of the insurance contract as an instrument of protection rather than a snare for the deluded.

## IV.

## SPECIFICATION OF ERRORS RELIED UPON.

Upon this Appeal Appellant urges:

1. The Findings of Fact, Conclusions of Law and Judgment on the Complaint are contrary to the law and evidence and cannot stand for the following reasons:

(A) Under the uncontroverted evidence the District Court erred in Finding of Fact II in its finding therein that Mr. Cobin applied for a preferred paid-up life at age 85 policy to be issued *at standard rates* and said finding is contrary to the evidence.

(B) Under the uncontroverted evidence the District Court erred in Finding of Fact IV, in its finding therein that the policy issued by Appellee to Mr. Cobin was not issued as applied for, and said finding is contrary to the uncontroverted evidence that the policy was in fact

issued as applied for and that the deceased paid a premium predicated on the issuance of a Special Class A Policy.

(C) Under the uncontroverted evidence the District Court erred in Finding of Fact V, in its finding therein that Appellee offered the Policy as issued to Mr. Cobin but Mr. Cobin refused to accept the Policy and returned the same for cancellation.

(D) The District Court erred in Finding of Fact VI, in its finding therein that Appellee's tender of the premium on April 16, 1954, some six weeks after Mr. Cobin's death, constituted a timely return of the premium under the circumstances, the uncontroverted evidence being that Appellee had not effected any valid cancellation of the Policy during Mr. Cobin's life time, and the Court erred further in failing to find in this connection (1) that Appellee had at no time prior to Mr. Cobin's death communicated to him its consent to a cancellation of the Policy previously issued and delivered to him; and (2) that at no time prior to Mr. Cobin's death did Appellee restore or offer to restore the premium it had received in consideration of its acceptance of the application and issuance of a policy to him.

(E) Under the uncontroverted testimony, the District Court erred in Finding of Fact VII, in its finding that since the middle of February, 1954, and until the trial of the action, Appellee refused to issue or deliver any policy of insurance upon the life of Mr. Cobin, and the trial court erred further in failing to find that a policy of life insurance had in fact been issued and delivered to Mr. Cobin

and that said policy was never validly revoked or cancelled in Mr. Cobin's lifetime and was in force at the time of his death.

(F) The District Court erred in Paragraph II of its Conclusions of Law, in concluding that no contract of insurance existed between appellee and Mr. Cobin, and in its further Conclusion that the policy issued by appellee was not accepted by Mr. Cobin and was rejected by him and returned for cancellation prior to his death.

(This Specification, and the subsidiary assignments of error thereunder is based upon Point B of the Statement of Points Upon Which Appellant Intends to Rely (C. T. 36).)

2. The District Court committed prejudicial and reversible error in its admission into the record over objection—(1) of evidence violative of the parol evidence rule; (2) of evidence constituting inadmissible hearsay and self-serving declarations; (3) of evidence relative to customs, practices and procedures of the appellee company unknown and uncommunicated to plaintiff's decedent; (4) of evidence in derogation of the attorney-client privilege despite assertion of the privilege; (5) of evidence outside the issues as framed by the pleadings and otherwise immaterial, incompetent, irrelevant or improper.

(This Specification is based upon Point A of the Statement of Points Upon Which Appellant Intends to Rely (C. T. 36).)

3. The District Court erred in its Order of January 7, 1957, denying Appellant's Motion to File a First

Amended Complaint in the form lodged on December 18, 1956, and in requiring the inclusion of Paragraph 6 in the First Amended Complaint as filed on February 18, 1957, as a condition of granting permission to file an Amended Complaint.

(This Specification is based upon Point C of the Statement of Points Upon Which Appellant Intends to Rely (C. T. 36).)

4. The District Court erred in its ruling of February 18, 1957, denying Appellant's Motion to Strike certain of Appellee's proposed interrogatories to be propounded to Harold G. Fogg and Fred E. Stewart and to limit the scope of examination of said witnesses, and that the Court committed prejudicial error in admitting into evidence over objection said interrogatories and the answers thereto, which related to customs, practices, procedures, interpretations, markings and communications of Appellee company and its employees never communicated to the insured or known by him.

(This Specification is based Upon Point D of the Statement of Points Upon Which Appellant Intends to Rely (C. T. 36-37).)

V.

## SUMMARY OF ARGUMENT.

1. The judgment can not stand as a matter of law for following reasons:

a. Mr. Cobin applied for, and made advance payment on, the type of policy which appellee issued. Upon

appellee's acceptance of Mr. Cobin's application at its home office, a binding contract of insurance was created.

b. Delivery of the policy to Mr. Cobin was not essential, since his insurance became effective irrespective of his actual receipt of the policy. The provisions of the contract did not require delivery. Nevertheless, Bloome did in fact physically deliver the policy to Mr. Cobin.

c. A policy of insurance having issued and a contract formed, Mr. Cobin could not thereafter unilaterally cancel such policy nor did Bloome, as agent, have authority to do so on behalf of appellee. Cancellation could only become effective by mutual agreement, and could only be manifested by appellee's acceptance of any purported offer of Mr. Cobin to return the policy, by communication of such acceptance to Mr. Cobin, by notification to him that the policy was cancelled and by concurrent refund of the premium.

d. Since appellee did none of these things last referred to, but in fact sent Mr. Cobin a notice postmarked March 9, 1954, stating the date of the next premium due appellee, and since its own policy record card shows that Mr. Cobin's policy did not lapse until March 10, 1954, appellee cannot successfully urge that Mr. Corbin was uninsured at the time of his death on March 5, 1954.

2. The Court committed numerous prejudicial errors in its ruling on the evidence and in its conduct of proceedings prior to the trial of the case.

## ARGUMENT.

### I.

### The Findings of Fact, Conclusions of Law and Judgment on the Complaint Are Contrary to the Law and Evidence and Cannot Stand.

**1. Under the uncontroverted evidence the District Court erred in Finding of Fact II in its finding that Mr. Cobin applied for a preferred paid-up life at age 85 policy to be issued at standard rates and said finding is contrary to the evidence.**

Finding II of the District Court which finds that Mr. Cobin applied for a policy of insurance to be issued at standard premium rates is not only without evidentiary support but is entirely unwarranted in that it flies directly in the face of the evidence elicited at the trial.

The evidence shows without dispute that all of the insurance then in existence on Mr. Cobin's life had been issued to him at substandard rates, that his insurance rating had been improved by some companies to a maximum of substandard A, that Bloome knew of this from his analysis of Cobin's policies, and that he told Cobin that he was sure that appellee would give him a comparable rating (R. 129-130; R. 41; R. 87).

Bloome testified that he prepared Part I of Mr. Cobin's application at Cobin's home (R. 91-92; R. 130) and incorporated into paragraph 11 of Part I of Mr. Cobin's application the following statement: "Present rating of most recent insurance policies Substandard A". (Pl. Ex. 1; R.

136). Bloome testified that Substandard A was the same as Special Class A, both of them being the lowest premium rating next to a standard rate policy (R. 136-137).

On Mr. Cobin's application, the sum of $69.52 was inserted as the amount charged for the premium (Pl. Ex. 1, par. 20) and the same figure was inserted by Bloome in paragraph 19 of the Agent's Certificate on the back of Part I as the amount of the first regular premium (Pl. Ex. 1, agent's certificate, par. 19; R. 214).

Bloome testified that if he were calculating a standard rate premium as distinguished from the Substandard A rate premium, the premium for Mr. Cobin on a monthly basis would be $50.50 rather than $69.52 (R. 220-221). In point of fact, the sum of $69.52 charged as the first month's premium by Bloome on the agent's certificate was an overcharge by $3.52 (R. 312) and the actual monthly premium as appears from the face of the policy was $66.00 (Pl. Ex. 5).

Thus, it is unmistakably clear that the finding here challenged, namely, that Mr. Cobin applied for a premium at standard rates, is negatived by the overwhelming weight of the evidence. The application on its face discloses that Mr. Cobin was rated immediately below (*i. e.*, next to) standard, and the amount of premium charged and taken in connection with the application shows that a substandard A (Special Class A) policy was applied for. Mr. Cobin was born on July 25, 1916. Had he applied for a policy at standard rates as found by the Court, it is admitted that the monthly premium would have been $59.50 (R. 220-221)

instead of the premium charged, which was for a Special Class A policy in conformity with Mr. Cobin's rating.

The portion of Finding of Fact II here attacked is utterly irreconcilable with this clear-cut evidence and cannot be allowed to stand.

**2. Under the uncontroverted evidence the District Court erred in Finding of Fact IV, in its finding therein that the policy issued by appellee to Mr. Cobin was not issued as applied for, and said finding is contrary to the uncontroverted evidence that the policy was in fact issued as applied for and that the deceased paid a premium predicated on the issuance of a special class A policy.**

Finding IV, which finds that the policy applied for by Mr. Cobin was for a standard rate policy and that the policy issued was not issued as applied for, but was issued at a Special Class A premium rate which was greater than the standard premium rate, is in direct opposition to the evidence adduced.

Under subsection (1), *supra,* appellant has set forth the evidence which manifests beyond peradventure of doubt that the application signed by Mr. Cobin contemplated the issuance of a policy at a substandard A rate, that the premium calculated by Bloome and advanced by Mr. Cobin was predicated on the issuance of a substandard A policy, and that the Special Class A policy issued was the same as the substandard A rating which Bloome had included in paragraph 11 of the application.

The evidence previously alluded to further establishes that a standard rating would have cost Mr. Cobin only

$59.50 but he was asked for a premium payment of $69.52. Had Mr. Cobin applied for a standard rate policy, there would have been no reason to ask for a premium advance in excess of the standard rate, no reason for Mr. Cobin to pay a first premium higher than the standard rate, and there would have obviously been no authority on the part of the general agent to remit to the appellee company a premium based on a Special Class A rating. The undisputed evidence shows that upon issuance of the policy at a Special Class A rating, General Agent Van Elgort immediately remitted to appellee's home office the premium based on the rating called for by Mr. Cobin's policy which had hitherto been kept in his trust account (R. 293-294).

The record will be searched in vain for a scintilla of evidence that Mr. Cobin objected to the issuance to him of the policy based on the Special Class A rating or for the merest intimation that any of the parties to the transaction regarded the policy as issued to have deviated in any way from the type of policy applied for and for which a payment covering the cost of such policy had been made in advance. On the contrary, Plaintiff's Exhibit 9, a communication of February 11, 1954, between two of appellee's officials, shows that the application was approved as made, and the policy issued the same day (R. 384).

The evidence conclusively establishes that the policy issued by the company was the policy applied for by Mr. Cobin and paid for in advance. Therefore, the portion of Finding IV here challenged is in diametric antithesis to the evidence and cannot be allowed to stand.

**3. Under the uncontroverted evidence the District Court erred in Finding of Fact V, in its finding therein that appellee offered the policy as issued to Mr. Cobin but Mr. Cobin refused to accept the policy and returned the same for cancellation.**

In connection with the District Court's finding that defendant offered the policy as issued to Leo Cobin but Leo Cobin refused to accept and did reject said policy and returned the same for cancellation, it is vitally important for this Honorable Court to take cognizance of one element of crucial significance which appears wholly to have escaped the lower court, namely, that appellee, having accepted Mr. Cobin's application at its home office and having issued its policy, had caused, at that moment, a completed contract of insurance to come into existence regardless of any physical delivery of the policy to Mr. Cobin. No further act on Mr. Cobin's part was required to give effect to the contract of insurance. Thus, irrespective of any acceptance of the policy by Mr. Cobin, a binding contract of insurance had been effectuated, which could be terminated only by mutual agreement for cancellation.

*However, no such mutual agreement of cancellation was ever accomplished in Mr. Cobin's life time, in any manner sanctioned by the law of contracts, or prescribed by the terms of the policy.*

In fact, appellee made it clear during the course of the trial that it was never relying on the defense of cancellation, but was proceeding on the theory that Mr. Cobin's acceptance of the policy was necessary to complete the contract. In his opening statement counsel for appellee declared:

"This case is essentially a question of fact which turns upon whether or not a policy of insurance, which was issued by The Midland Mutual Life Insurance Company, the defendant, was ever accepted by the assured—by the applicant, I should say, Mr. Cobin." (R. 30).

"Limitation of Authority: *This policy cannot be varied or altered or its conditions waived or extended in any respect except by written agreement of the Company,* signed by the President, a Vice-President, the Secretary, an Assistant Secretary, or the Actuary, whose authority in this respect shall not be delegated.

"*No agent * * * has power on behalf of the Company, to * * * discharge this or any other contract of insurance * * *.*" (Italics added).

So far as is here material, the following language is contained at the bottom of Part I of the application form:

"If a policy is issued hereon, the complete application, Parts I and II, and such policy shall constitute the entire contract. This application is an offer by me for a contract of insurance, and if a deposit is made by me at the time of making this application, the insurance applied for shall not be effective unless and until the Company accepts this application without change at its home office, but if no such deposit is made, the policy, if issued shall not take effect unless and until delivered and the first full premium paid while I am in good health * * *"

It is important to observe that the policy makes no provision for cancellation by the insured.

These contractual provisions, read in the light of the prevailing law, lead inescapably to the conclusion that upon

"This case is essentially a question of fact which turns upon whether or not a policy of insurance, which was issued by The Midland Mutual Life Insurance Company, the defendant, was ever accepted by the assured—by the applicant, I should say, Mr. Cobin." (R. 30).

"Contrary to what Mr. Horwin has said, there is no legal issue in this case as to a cancellation. Our defendant's position is that there was never a contract, therefore, there could be no issue of cancellation. In other words, there was never an acceptance of delivery by the applicant of the contract and, therefore, there would be no contract, and, therefore, there is no issue of cancellation involved in this case.

"It is purely a factual question as to, was the policy accepted by Mr. Cobin or returned to the company and we will offer our evidence to support those issues." (R. 33).

The provisions of the contract between the parties which are here pertinent appear in the policy issued by appellee and in the application signed by Mr. Cobin.

On the face of the policy, it is stated:

"This policy is issued in consideration of the application therefor, a copy of which is attached hereto and made a part hereof, and of the payment of a first premium of $66.00 * * *." (Pl. Ex. 5, p. 1).

The policy provides under title "General Provisions and Benefits" (Page 2):

"The contract: This policy and the application therefor constitute the entire contract between the parties * * * no statement shall avoid this policy or

be used in defense of a claim hereunder unless it is contained in the written application * * *.

"Limitation of Authority: *This policy cannot be varied or altered or its conditions waived or extended in any respect except by written agreement of the Company,* signed by the President, a Vice-President, the Secretary, an Assistant Secretary, or the Actuary, whose authority in this respect shall not be delegated.

"*No agent * * * has power on behalf of the Company, to * * * discharge this or any other contract of insurance * * *.*" (Italics added).

So far as is here material, the following language is contained at the bottom of Part I of the application form:

"If a policy is issued hereon, the complete application, Parts I and II, and such policy shall constitute the entire contract. This application is an offer by me for a contract of insurance, and if a deposit is made by me at the time of making this application, the insurance applied for shall not be effective unless and until the Company accepts this application without change at its home office, but if no such deposit is made, the policy, if issued shall not take effect unless and until delivered and the first full premium paid while I am in good health * * *"

It is important to observe that the policy makes no provision for cancellation by the insured.

These contractual provisions, read in the light of the prevailing law, lead inescapably to the conclusion that upon

appellee's acceptance of Mr. Cobin's application and its issuance of a policy, a contract of insurance arose that was never effectively terminated prior to Mr. Cobin's death.

The rule is well established that where an application is made for a policy of life insurance and a sum of money is paid to the agent of the insurer to be applied on the first premium, if the insurer accepts the application, the contract is complete on the issuance of the policy and no delivery of the policy to the insured, nor acceptance of the policy by him, is essential to make the contract of insurance binding.

> *Harrigan* v. *Home Life Ins. Co.,* 128 Cal. 531, 547, 61 Pac. 99.
>
> *Fageol T. & Co. Co.* v. *Pacific Indemnity Co.,* 18 Cal.2d 731-739, 117 P.2d 661.
>
> *Ransom* v. *Penn Mutual Life Ins. Co.,* 43 Cal.2d 420-425, 242 P.2d 633.
>
> *Kansas City Life Insurance Co.* v. *Cox,* 104 F.2d 321, 325.
>
> *Mutual Life Ins. Co.* v. *Ford,* 2 Ohio App. 410.
>
> *Penn. Threshermen, etc., Ins. Co.* v. *Carter,* 197 Va. 776, 91 S.E.2d 429.
>
> *Commonwealth L. Ins. Co.* v. *McGuire,* 190 Ky. 134, 226 S.W. 402.
>
> *Coci* v. *N. Y. Life Ins. Co.,* 155 La. 1060, 99 So. 871.
>
> *Cooper* v. *Pac. Mutual Life Ins. Co.,* 7 Nev. 116, 8 Am. Rep. 705.

In *Harrigan* v. *Home Life Ins. Co., supra,* the Supreme Court of California stated this principle in the following language (128 Cal. 547):

> " 'If the company so far accepts the application as to prepare and forward a policy to its agent for delivery, and if payment of the premium has been made,

or if such payment is not a condition of the policy taking effect * * * the contract is then complete, and the company cannot revoke its acceptance, although the policy had not been delivered.' "

In *Fageol T. & Co. Co., supra,* this rule was reaffirmed in the following language (18 Cal.2d 739):

"It is next contended that Fageol never accepted the Detroit insurance. Acceptance was wholly unnecessary. Neither the policy nor its endorsement required acceptance by either beneficiary. No statute required such acceptance. Under the custom and practice of insurance companies, as found by the Court, when, following Thomas' application for a policy, it was issued to him, it became, a binding contract for the benefit of the assured and his beneficiaries, for the term specified."

In *Kansas City Life Ins. Co.* v. *Cox,* 104 F.2d 321, 325, the same rule was enunciated in the following language:

"An unconditional acceptance by an insurance company of an application for insurance makes it binding on both parties *without the issuance or delivery of a policy,* unless the application otherwise provides and when the company approves it as made and issues a policy, it manifests an intention to accept it, resulting in a meeting of the minds and the completion of a contract effective when the first premium is paid (Citations)." (Emphasis added).

So, in the case at bar no provision of the contract required either delivery to the insured, or acceptance of the policy by him as a condition precedent to the formation of a contract. On the contrary, an examination of the lan-

guage of the application previously quoted manifests that where a deposit is made at the time of the application, the insurance applied for becomes effective at the time the company accepts the application as made. Said language indicates that only where no deposit is made does the effective time of the policy depend on delivery to the insured.* In the instant case Mr. Cobin's premium had accompanied his application and had in fact been remitted to appellee.

In construing a comparable clause in an application for insurance, the Supreme Court of California, in the recent case of *Ransom* v. *Penn Mutual Life Ins. Co.*, 43 Cal.2d 420, has held that insurance coverage became effective upon payment of the premium *even before* the application was actually accepted. In the Ransom case the application contained the following clause:

> "If the first premium is paid in full in exchange for the attached receipt signed by the Company's agent when this application is signed the insurance shall be in force, subject to the terms and conditions of the policy applied for, from the date of Part I or Part II of this application, whichever is the later, provided the Company shall be satisfied that the Proposed Insured was at that date acceptable under the Company's rules for insurance upon the plan at the rate of premium and for the amount applied for, but that if such first premium is not so paid or if the Company is not satisfied as to such acceptability, no insurance shall

---

*That language reads: "* * * but if *no such deposit* is made, the policy, if issued, shall not take effect unless and until delivered and the full premium paid while I am in good health." (Emphasis added).

be in force until both the first premium is paid in full and the policy is delivered while the health, habits, occupation and other facts relating to the Proposed Insured are the same as described in Part I and Part II of this application and in any amendments thereto."

Ransom had signed the application form and paid the first premium in full. Before accepting the policy, the insurer requested Ransom to submit to a further medical examination, but before this could be arranged Ransom was killed in an automobile accident. The defendant insurer appealed from a judgment against it contending that no contract of insurance was in force at the time of Ransom's death.

In repelling this contention the California Supreme Court stated (43 Cal.2d 425):

"We are of the view that a contract of insurance arose upon defendant's receipt of the completed application and the first premium payment. The clause quoted above is subject to the interpretation that the applicant is offered a choice of either paying his first premium when he signs the application, in which event 'the insurance shall be in force * * * from the date * * * of the application,' or of paying upon receipt of the policy, in which event 'no insurance shall be in force until * * * the policy is delivered.' The understanding of an ordinary person is the standard which must be used in construing the contract, and such a person upon reading the application would believe that he would secure the benefit of immediate coverage by paying the premium in advance of delivery of the policy. There is an obvious advantage to the company in obtaining payment of the premium when the applica-

tion is made, and it would be unconscionable to permit the company, after using language to induce payment of the premium at that time, to escape the obligation which an ordinary applicant would reasonably believe had been undertaken by the insurer. Moreover, defendant drafted the clause, and had it wished to make clear that its satisfaction was a condition precedent to a contract, it could easily have done so by using unequivocal terms. While some of the language tends to support the company's position, it does no more than produce an ambiguity, and the ambiguity must be resolved against defendant (Citations)."

The language of the present application is free from doubt. But, as the Ransom case holds, if there were any doubt from the language of the application that it was intended that an application accepted by payment of a premium should become effective upon issuance of a policy, such doubt would have to be resolved against the insurer under familiar rules of construction.

As stated in *Culley* v. *N. Y. Life Ins. Co.*, 27 Cal.2d 187, 194:

> "In any event any doubt as to the meaning of the policy must be resolved in favor of the insured under well known rules of interpretation (Citations)."

The authorities cited abundantly demonstrate that the learned trial Judge failed to recognize the fundamental rule that the insurance contract sprang into force as a binding obligation upon acceptance of the application by the insurer and that no further act was necessary to lend vitality to the binding effect of the agreement.

The factual context here present however, goes even beyond mere acceptance of the application and issuance of a policy. In the present case, not only was there payment of a premium deposit with the application, approval of the application by the insurer and issuance of a corresponding policy, but there was delivery of the policy to the agent, concurrent transfer of the insured's premium from the agent to the insurer and physical delivery of the policy to the insured, which was retained by him for several days.

As has been pointed out, under the provisions of the contract, delivery of the policy was not required to make the contract binding. To the contrary, acceptance by the insurer resulted in formation of the contract. But even where the contract of insurance expressly required delivery as a condition precedent to the effectiveness of the policy, there are numerous cases which squarely hold that delivery of the policy is accomplished by the mere act of sending it to the insured's agent for delivery to the assured.

Thus in *Courdway* v. *Peoples Mut. Life Ins. Co.*, 118 Cal.App. 530, 533, 5 P.2d 453, the Court states:

> "The delivery of the policy was accomplished by the act of sending it to the agent for delivery to the insured."

In *Meyer* v. *Johnson*, 7 Cal.App.2d 604, 46 P.2d 822, the beneficiary on behalf of the insured, returned two life insurance policies to the agent, stating that they would be acceptable if the premium were made payable semi-annually instead of annually. After issuance of the changed

policy, but before delivery either to the agent or insured, the insured was killed. The Court held the policy binding and stated (page 618):

> "Accordingly, the reissued policies were never delivered to the insured or to the beneficiary or to anyone on behalf of the insured. On similar facts the cases held that there has been but one payment and delivery (Citations)."

In *Schnell* v. *Globe Indemnity Co.,* 42 Cal.App.2d 704, 709, 109 P.2d 1018, it is stated:

> "Certainly there was constructive delivery, because the insurance carrier in sending the policy to their agent did not intend that he should keep it for them, but on the contrary he held it for the insured. This being the case, liability attached under the policy when it was forwarded from the home office (Citations)."

There are numerous cases which hold to the same effect.

> See *Bloom* v. *Pac. Mut. Life Ins. Co.,* 85 Cal.App. 419, 428, 259 Pac. 496.
>
> *Paez* v. *Mut. Indem. Life Ins. Co.,* 116 Cal.App. 654, 656-8, 3 P.2d 69.
>
> *Hill* v. *Industrial Accident Com.,* 10 Cal.App.2d 178, 184, 51 P.2d 1126.

It being clear from the pertinent authorities that a contract of insurance had been consummated between Mr. Cobin and Appellee, it becomes manifest that Finding of Fact V to the effect that Appellee offered a Policy to Mr. Cobin rests upon the mistaken idea that the parties were still in process of negotiating a contract of insurance at the time the policy was issued. This, of course, is a fallacy,

and the finding here in dispute, namely, that Appellee merely offered a policy to Mr. Cobin, which Mr. Cobin refused to accept is, as a matter of law, prejudicially erroneous and can not be allowed to stand.

**4. The District Court erred in Finding of Fact VI.**

The District Court erred in Finding of Fact VI in its finding therein that Appellee's tender of the premium on April 16, 1954, some six weeks after Mr. Cobin's death, constituted a timely return of the premium under the circumstances, the uncontroverted evidence being that Appellee had not effected any valid cancellation of the Policy during Mr. Cobin's life time, and the Court erred further in failing to find in this connection (1) that Appellee had at no time prior to Mr. Cobin's death communicated to him its consent to a cancellation of the Policy previously issued and delivered to him; and (2) that at no time prior to Mr. Cobin's death did Appellee restore or offer to restore the premium it had received in consideration of its acceptance of the application and issuance of a policy to him.

As has been previously shown, a contract of insurance arose when Appellee issued its Policy upon the acceptance of Mr. Cobin's application.

This being so, that Policy could only be cancelled or avoided by the parties (1) as provided by Statute, if any; (2) as provided by the terms of the Policy; (3) for fraud or other good cause; and (4) by mutual agreement or consent of the insured and insurer.

29 Am.Jur., Insurance, Section 273, Page 256.
27 Cal.Jur., Insurance, Section 296, Page 796.

There is no governing statute applicable to the policy here involved under the circumstances of this case, and no question of fraud or other circumstance warranting cancellation is here involved.

The Policy itself is silent as to the right of cancellation by either the insurer or the insured. There is thus obviously no right of arbitrary unilateral cancellation by either the insurer or insured. The Policy does state, however, on page 2, in the second paragraph entitled Limitation of Authority—"No agent * * * has power on behalf of the company, to * * * discharge this or any contract of insurance * * *" (Pl. Ex. 5).

Thus, a policy having issued, and accepting Appellee's version of the testimony that the Policy was redelivered to its agent, Mr. Bloome, for purposes of cancellation, this would constitute merely an offer by Mr. Cobin to cancel the Policy, and such cancellation could only be achieved by Appellee's acceptance of the offer to cancel while the offer was still outstanding, upon proper notice to the insured of such cancellation.

In other words, since the Policy makes no provision for cancellation by the insured, and since the Policy expressly removes from the agent any authority to cancel on behalf of the insurer (*Hooker* v. *American Indemnity Co.*, 12 Cal.App.2d 116, 120, 54 P.2d 1128), the asserted delivery of the Policy by Mr. Cobin to Bloome at most would constitute an offer to cancel by mutual agreement, effective, like any other offer, upon communication to insured of the insurer's acceptance of the offer.

Contracts of insurance, including the termination thereof, are governed by rules applicable to contract generally.

*Ohran* v. *National Automobile Insurance Co.*, 82 Cal.App.2d 636, 645, 187 P.2d 66.

*Boyer* v. *U. S. Fid. & Guar. Co.*, 206 Cal. 273, 274 Pac. 57.

*Yoch* v. *Home Mut. Ins. Co.*, 111 Cal. 503, 44 Pac. 189.

It is Hornbook law, requiring no citation of authority, that an acceptance of an offer is not effective until communication to the offeree of the acceptance of the offer.

In the case at bar, assuming appellee intended to accept Mr. Cobin's offer to cancel, at no time did appellee communicate such acceptance to Mr. Cobin during his life time.

Indeed, before any communication with respect to the cancellation of the policy was made to Mr. Cobin, Mr. Cobin died on March 5, 1954, thus revoking by operation of law his offer to cancel the policy, which had not as yet been accepted by appellee.

It is rudimentary that where the offeror dies before his offer has been accepted, the offer is deemed revoked by operation of law.

*Shaw* v. *King*, 63 Cal.App. 18, 24, 218 Pac. 50.

Williston on Contracts, Sec. 50 A.

The mere fact that in its own office appellee placed a notation on the policy of Mr. Cobin reading "Not Taken March 3, 1954", which was uncommunicated to Mr. Cobin

in his life time and of which he had no notice, does not effect a cancellation of the policy.*

Commenting on a similar situation the court stated in *Hill* v. *Industrial Acc. Com.*, 10 Cal.App.2d 178, 186, 51 P.2d 1126:

> "It is admitted that no formal notice of cancellation of the policy was mailed or otherwise sent or delivered to Hill before the time of the injury of Mrs. Vickers * * *. The only reference to a cancellation of the policy was the words 'cancellation audit' typed on the lower left portion of the page. These words cannot be construed into a notice that the policy was being cancelled or was going to be cancelled at a future date. The maximum information which they might convey on the subject was that the company might be preparing to take steps to cancel the policy. The words fell far short of the information concerning cancellation which the company bound itself to give Hill in the policy issued to him. In that instrument it was provided that to effect a cancellation it must give 'written notice to the other party stating, when less than ten days thereafter, cancellation shall be effective'. It could not cancel its policy by any notice short of the one it had bound itself to give. It did not give such a notice of cancellation."

But what is truly revealing, and especially significant as an admission against interest, is the content of appellee's policy record card, which is Def. Ex. M herein. On that card, the words "Not Taken March 3, 1954" are stricken

---

*In a succeeding part of this brief it will be shown that the notation referred to, uncommunicated to Mr. Cobin, was inadmissible under evidentiary rules.

out and a notation appears thereon "Lapsed, March 10, 1954", and "Termination March 10, 1954", in printing. This evidence, combined with the fact that appellee never returned, or offered to return the advance premium to Mr. Cobin before his death, and coupled with the fact that on March 9, 1954, a notice was sent to Mr. Cobin informing him that the next premium was due, clearly indicate that as of the date of Mr. Cobin's death on March 5, 1954, appellee had not accepted the offer to cancel, considered the policy then in force and not until March 10, 1954, five (5) days after Mr. Cobin's death, did appellee regard the policy as lapsed.

The failure to return an unearned premium, the failure of insurer to give notice of cancellation, the request for premium from the insured and the insured's own policy record card which shows that the policy was treated as not lapsed until March 10, 1954, and terminated on that date unequivocally establish that the policy was in full force on March 5, 1954, when Mr. Cobin died.

In *Ohran* v. *National Automobile Ins. Co.,* 82 Cal.App.2d 636, 187 P.2d 66, where the insurer collected a premium for a period during which the insured died and stated in a letter that the policy would not lapse until a particular date, the court held that this constituted an admission that the policy was in force at the time of death. The court stated (p. 646):

> "Not only the words emphasized but also the collection by respondent of earned premium up to March 26, 1953, constitute admission that the policy was in full force and effect up to March 26, 1953 * * *"

In *Lincke* v. *Mut. Benefit, etc., Assn.*, 76 Cal.App.2d 222, 172 P.2d 912, the question involved was whether a policy had lapsed on July 1, 1942. The insured was killed on July 2, 1942. Among her effects were found two letters from the insurer to the insured, dated July 17, 1942 and July 31, 1942, each containing the salutation, "Dear Policyholder" and requesting payments of premium by a particular date in order to reinstate the policy which had lapsed on July 1, 1942. In holding the policy to be in effect at the date of death, the court stated (p. 226):

> "It is clear from these letters that defendant did not regard the policy forfeited and cancelled and all rights under it terminated by reason of the failure to pay the premium due on July 1, 1942. The salutation, 'Dear Policyholder' is significant."

To the same effect is *Hill* v. *Industrial Acc. Com.*, 10 Cal.App.2d 178, 187, 51 P.2d 1126.

(It is pertinent to observe that along with the letter of March 9, 1954, by which appellee notified Mr. Cobin that a premium payment was due, there was included appellee's 48th Annual Report "To our Policyowners.")

Separate and apart from the fact that the evidence is without dispute that no acceptance of Mr. Cobin's offer to cancel was communicated to him, and separate and apart from the above evidence contained in appellee's records and manifested by its conduct which reflect that appellee treated the policy as in force subsequent to Mr. Cobin's death, a further vital fact must be considered, namely, the requirement that a notice of cancellation be given to the insured to render the cancellation effective is a *sine*

*qua non* in matters dealing with cancellation of insurance policies.

It will be observed that in the case at bar, the policy makes no provision for cancellation by either insurer or insured. But even in cases where the provisions of a policy authorized cancellation by the insurer, such cancellation is ineffective until the insured has received notice of cancellation at the place where the insured can be reached.

> *Farnum* v. *Phoenix Ins. Co.,* 83 Cal. 248, 256, 23 Pac. 869.
>
> *Naify* v. *Pac. Indemnity Co.,* 11 Cal.2d 5, 10, 76 P.2d 663.
>
> *Joshua Hendy M. Works* v. *Ins. Co.,* 86 Cal. 248, 24 Pac. 1018.

This Honorable Court has had recent occasion to affirm the principle that cancellation prior to receipt of actual notice is ineffective in the case of *Traders & General Ins. Co.* v. *Champ,* 225 F.2d 802.

In that case, the insurer sent a notice of cancellation to the insured at the wrong address. Subsequent thereto the insured was involved in an accident. The insurer contended it was not liable on the policy because it had mailed a notice of cancellation. In affirming a judgment against the insurer, this Honorable Court stated (p. 806):

> "We are satisfied the trial court was correct under the California law in holding the cancellation here ineffective, at least prior to receipt of actual notice."

That this Honorable Court would endorse such a rule ndependently appears from the statement on Page 805 f the above cited opinion, where it is stated:

> "Parenthetically, we think if it were ours to decree, there would be no harm in a rule of law that no notice of cancellation (where there was no fraud on the part of the insured) could be effective until it reached the insured, provided the insured had left open the channels of communication to him and had not removed himself an unreasonable distance away."

Here, the record conclusively shows that no notice of cancellation was even sent to Mr. Cobin before he died on March 5, 1954.

On the contrary, the first communication sent to Mr. Cobin by appellee occurred subsequent to his death, when appellee mailed to Mr. Cobin a notice postmarked March 9, 1954, informing him that the next premium of $66.00 was due on the policy on March 24, 1954 (Pl. Ex. 10), a fact and circumstance clearly irreconcilable with any cancellation of the policy.

Appellant believes that from the foregoing argument and authorities, it can not be doubted that having failed in Mr. Cobin's life time to accept his purported offer of cancellation and having failed to notify Mr. Cobin of any purported cancellation, appellee is in no position to urge that any legally effective cancellation ever occurred which would deprive the beneficiary herein of her rights under the policy as issued.

Nevertheless, one other fact of extreme significance must also be pointed out, namely, that appellee made no

offer to restore the premium it received from the policy it had issued until 25 days after it learned of Mr. Cobin's death.

There is thus presented the question of the necessity for a refund of the premium to effect a valid cancellation.

Normally, whether or not a cancellation of a policy requires the refund of the premium in order to be effective involves the interpretation of the language of the policy.

> *Quong Tue Sing* v. *Anglo-Nevada Ins. Co.,* 1890, 86 Cal. 566, 25 Pac. 58.
>
> *Naify* v. *Pac. Indemnity Ins. Co.,* 11 Cal.2d 5, 10, 76 P.2d 663.

However, no question of construction is here involved since the policy contains no provisions with respect to cancellation or refund of the premium.

Under such circumstances the rule germane to the situation is expressed in Richards on Insurance (5th Ed., Vol. 3, Section 415, P. 1369):

> "In the absence of policy provisions or statutory language to the contrary, as delineated below, the repayment or tender of unearned premiums is a condition precedent or prerequisite to cancellation of a policy by the insurer. *Clearly, in the absence of any cancellation clause whatsoever, the return or tender of the unearned premium is mandatory if the validity of the insurer's cancellation is to be upheld.*" (Italics added).

The author, referring to the case of *Genone* v. *Citizens Ins. Co.,* 207 Ga. 83, 60 SE2d 125, observes that the court in the Genone case noted that conflicting rulings of the courts, rested upon the particular wording of the given cancella-

tion clause. The following language is then quoted from the Genone case (Richards, *ibid.*, p. 1370):

> "These rulings may be grouped into five categories; First, where the wording of the policy makes a return of the unearned premium a condition precedent to cancellation; second, where the policy construed was a standard fire policy; *third, where the cancellation clause was silent as to return of unearned premium;* fourth, where the provision for return of the unearned premium was ambiguous; and fifth, where the obligation to return the unearned premium was, by the terms of the contract, plainly made a consequence and not a condition of cancellation. *The weight of authority is that, if the terms of the cancellation clause fall within any one of the four groups, a tender or return of the unearned premium is necessary to effect cancellation* * * *." (Emphasis supplied).

This rule is supported not only by the weight of authority but reflects the principle embodied in Section 481 of the California Ins. Code, which provides in part:

> "Unless the insurance contract otherwise provides, a person insured is entitled to a return of premium if the policy is cancelled * * * as follows:
>
> 1. To the whole premium, if no part of his interest in the thing insured is exposed to any of the perils insured against.
>
> 2. Where the insurance is made for a definite period of time, and the insured surrenders his policy, to such proportion of the premium as corresponds with the unexpired time * * *."

Similarly, had appellee desired to effect a cancellation, it was required not only to give notice, which it failed to

do, but to have restored, or at least have offered to restore, the premium paid, which it likewise failed to do in Mr. Cobin's life time.

For all of the foregoing reasons, Finding of Fact VI is erroneous, since the uncontroverted evidence shows that appellee had not effected any valid cancellation of the policy during the life time of Mr. Cobin; that appellee at no time prior to Mr. Cobin's death communicated to him its consent to a cancellation of the policy issued; that appellee at no time sent him a notice of cancellation nor did it restore nor offer to restore the premium it had received in consideration of its acceptance of the application and issuance of a policy to Mr. Cobin.

**5. Under the uncontroverted testimony the District Court erred in Finding of Fact VII.**

Under the uncontroverted testimony the District Court erred in Finding of Fact VII, in its finding that since the middle of February, 1954, and until the trial of the action, appellee refused to issue or deliver any policy of insurance upon the life of Mr. Cobin; and the trial court erred further in failing to find that a policy of life insurance had in effect been issued and delivered to Mr. Cobin and that said policy was never validly revoked nor cancelled in Mr. Cobin's life time and was in force at the time of his death.

It would be a work of supererogation to review the facts and argument which have been set out above and which amply demonstrate that appellee had in fact issued a policy of life insurance to Mr. Cobin in the middle of

February, 1954, that its agent had in fact physically delivered said policy to Mr. Cobin in the middle of February, 1954, that Mr. Cobin had fully prepaid a month premium for said policy, that said premium was delivered to appellee by its agent and retained by it for several weeks after Mr. Cobin's death, that appellee never gave Mr. Cobin notice of any purported cancellation before his death, that its own policy record card shows that far from being cancelled, the policy lapsed March 10, 1954, five (5) days after Mr. Cobin's death, and the fact is that on March 9, 1954, four (4) days after Mr. Cobin's death, appellee sent Mr. Cobin a notice not that the policy was cancelled, but that the premium was due on March 25, 1954.

The thrust of these facts irrevocably manifests that the finding herein challenged, as in the case of every other finding made by the Court and discussed in the preceding section of this brief, is not sustained by any substantial evidence.

**6. The District Court erred in Paragraph II of its Conclusions of Law, in concluding that no contract of insurance existed between appellee and Mr. Cobin, and in its further Conclusion that the policy issued by appellee was not accepted by Mr. Cobin and was rejected by him and returned for cancellation prior to his death.**

Appellant has, hereinabove, discussed each and every material Finding made by the Court. Appellant respectfully submits that not only does the evidence fail to support any of the material Findings made, but the law applicable to the facts of this case conclusively establishes that the policy issued to, and paid for, by Mr. Cobin was in full force

and effect at the time of his death. As a necessary consequence, Conclusion II, flowing as it does from findings without support in the record and upon a mistaken concept of the principles of law apposite to this case, is completely unjustified and unwarranted.

Appellant respectfully submits that not only do the facts of this case compel a reversal of the decision to avoid a miscarriage of justice but it is further urged that such reversal should be accompanied with a direction to enter judgment for appellant, since under a correct view of the facts established, the Conclusion must inevitably follow that Mr. Cobin was insured at the time of his death, and that his widow, the plaintiff and appellant herein is entitled to recovery as beneficiary under that policy.

Under a fact situation no more compelling than in the case at bar, this Honorable Court very recently vacated a judgment in favor of an appellee and directed a judgment in favor of appellant. That case is *Centennial Ins. Co.* v. *Schneider*, 247 F.2d 491. At page 494 of that opinion, this Honorable Court, speaking through Judge Bone, gave expression to a rule which clearly applies to all of the findings made herein, and to the ultimate result reached below:

> "Under Rule 52(a) of the Fed. Rules Civ. Proc., 28 U.S.C.A., a finding is clearly erroneous when, although there is evidence to support it, a reviewing court on reviewing the entire evidence is left with a definite and firm conviction that a mistake has been made. United States v. U. S. Gypsum Co., 1948, 333 U.S. 364, 395-396, 68 S. Ct. 525, 92 L.Ed. 746; Smyth v. Erickson, 9 Cir., 1955, 221 F.2d 1, 4; Alaska Freight Lines v. Harry, 9 Cir., 1955, 220 F.2d 272, 275. Cf.

United States v. One 1950 Buick Sedan, 3 Cir., 1956, 231 F. 2d 219, 223, on drawing reasonable inferences from 'basic facts.'

"After a complete study of the evidence we are left with the conviction that a mistake has been made."

Appellant feels that after reviewing the entire record, this Honorable Court will entertain the firm and definite conviction that a mistake was made by the trial court which should not remain unrectified.

II.

**The District Court Committed Prejudicial and Reversible Error in Its Admission into the Record over Objection—(1) of Evidence Violative of the Parol Evidence Rule; (2) of Evidence Constituting Inadmissible Hearsay; (3) of Evidence Constituting Self-Serving Declarations; (4) of Evidence Relative to Customs, Practices and Procedures of the Appellee Company Unknown and Uncommunicated to Plaintiff's Decedent; (5) of Evidence in Derogation of the Attorney-Client Privilege Despite Assertion of the Privilege; (6) of Evidence Outside the Issues As Framed by the Pleadings; (7) of Evidence Otherwise Immaterial, Incompetent, Irrelevant or Improper.**

The District Court, throughout the trial committed reversible error by its rulings on the admission of evidence. That the record is infected with serious error appears from the prolific mass of inadmissible testimony which the Court received in evidence and which seriously prejudiced appellant's case.

**1. The trial court erred in admitting evidence violative of the parol evidence rule, and in admitting otherwise improper testimony.**

Throughout the trial, appellee offered evidence of surrounding circumstances, of negotiations between the parties prior to issuance of the policy, of discussions that Mr. Cobin had with third party strangers, despite the fact that a policy of insurance had been issued which contains no ambiguity, required no interpretation and had superseded prior negotiations.

The following occurred during cross-examination of plaintiff by Mr. Duque, appellee's counsel:

> "Q. (To Mrs. Cobin) And did you have any conversations with him during that year or the subsequent years regarding the buying of insurance policies? (Note: Reference was to conversations preceding the application of December 14, 1953.)
>
> "Mr. Horwin: Just a second. To which I object, your Honor, upon the ground that there is a written application and a written policy which supersedes all prior conversations and negotiations, so that the question as to any conversations preceding the application would be irrelevant.
>
> "The Court: I will overrule the objection.
>
> "Mr. Horwin: It is not a part of the res gestae. It is also violative of the parol evidence rule.
>
> "The Court: I will overrule the objection. You may relate the conversation." (R. T. 34).

(Again with regard to conversations preceding the application:)

> "Q. Will you tell us what was said by you and Mr. Bloome and Mr. Cobin?

"Mr. Horwin: Just one moment, Mrs. Cobin.

"To which I object and wish to call the Court's attention at this time to the law in regard to prior conversations with a deceased insured.

"The Court: What page of your Brief is that cited on?

"Mr. Horwin: I am referring in particular to the case of Paez v. Mutual Indemnity, etc., Insurance Company, 116 Cal. App. 654, 4th District, 1931.

"The Court: What page is that on in your Brief?

"Mr. Horwin: Well, you don't have a page there. For accommodation of counsel and the Court I will hand to the Court an original and copy of a Memorandum of Law on this subject, and a copy for counsel.

"The Court: That is 116 Cal. App. 654, Paez v. Mutual Indemnity.

"Mr. Horwin: The first one was the Paez case, that is right, Your Honor.

"The Court: Well, I previously overruled the objection. This is a further argument on the objection, then, isn't it?

"Mr. Horwin: Well, the point is, I know I did not offer any authorities on this subject in my supporting Memoranda, and I know the Court wants to avoid any error and that it is my duty to call the Court's attention to the authorities.

"The Court: The Court is willing to let the ruling stand. I don't know whether Mr. Duque wants to argue the matter. I overruled the objection, and let the conversation go in." (R. 34-36).

Thereafter the following took place on cross-examination of plaintiff:

"Q. All right. Will you tell us what was said and done at that meeting, please? (Note: Reference

to conversation of December 14 preceding the application.)

"Mr. Horwin: Just a moment, please. May it be understood that my objection is continuing upon the basis of violation of the parol evidence rule, and the authorities offered with regard to declarations and statements of a deceased, and this not being a part of the res gestae.

"The Court: The record will show that Mr. Horwin has made his objection. The Court will overrule the objection. You may answer."

(R. T., pp. 39–40).

"Q. Was this the first and only time that Mr. Bloome called you and told you that there was an appointment made for you and Mr. Cohen to be examined by the Midland Mutual doctor? (Note: Reference was to conversations between Louise and Bloome with regard to medical examination between time of application and time of issuance of the policy.)

"Mr. Horwin: Just a moment. To which I object on the grounds that the question of appointments with the doctors is irrelevant to the case and that the conversations with regard to setting up appointments with the doctor, which is not in issue in this case, is likewise irrelevant, besides being violative of the parol evidence rule.

"The Court: The Court will overrule the objection."

(R. T. p. 41.)

"Q. By Mr. Duque: Well, isn't it a fact, Mrs. Cohen, that Mr. Bloome called you and called your husband and made several appointments with the Midland Mutual doctor, and that you and Mr. Cohen never kept any?

"Mr. Horwin: The same objection.

"The Court: I will overrule the objection."

(R. T., p. 47.)

"Q. By Mr. Duque: Isn't it a fact, Mrs. Cobin, that your husband indicated to you that he was not sure that he wanted these contracts and therefore it was not necessary for you to go and have your medical?

"A. No, sir.

"Mr. Horwin: Just a second. The same objection and also objected to as incompetent, because it is relating to supposed declarations of the deceased and without regard to the occasion of the res gestae.

"The Court: I will overrule the objection and let the answer remain. She has already given it."

(R. T., p. 48.)

"Q. Now, do you recollect having received a letter from the Midland Mutual Life Insurance Company telling you in effect that the policy would not be issued and that they were not going to issue the policy unless you went and had your medical examination?

"Mr. Horwin: Just a minute. Objected to upon the grounds that the subject matter is irrelevant. A policy was issued by the Company and whether they complained about medical examination or wanted it earlier or wanted it later or continued it or anything else would be irrelevant to the case.

"The Court: I will overrule the objection."

(R. T., pp. 48-49.)

Again, during cross-examination of plaintiff, the following occurred:

"Q. Did you or Mr. Cobin, or either of you, in each other's presence, have any conversation with Mr. Koff (Note: Agent for another insurance company)

concerning the estate planning which was being done by Mr. Cobin in connection with the recommendation of the Title Insurance & Trust Company?

"Mr. Horwin: Objected to as incompetent, irrelevant and immaterial.

"The Court: I will overrule the objection. She may answer."

(R. T., p. 72.)

"Q. By Mr. Duque: Did your husband ever tell you that he had any conversations with Mr. Koff regarding the Midland Mutual policies?

"Mr. Horwin: Just a second. That is objected to as not within the res gestae of the case, an improper query for declarations of the deceased, violative of the parol evidence rule, incompetent, irrelevant and immaterial.

"The Court: The Court will overrule the objection."

(R. T., p. 72.)

"Q. Mrs. Cobin, isn't it a fact that at the time your husband had the discussions with Mr. Koff about the Midland policies, that there was in existence on his life a policy of insurance with the Manhattan Life Insurance Company?

"Mr. Horwin: Objected to as irrelevant.

"The Court: I will overrule the objection."

(R. T., p. 75.)

"Q. Mrs. Cobin, in addition to the Manhattan Life Insurance policy which existed on the life of your husband and which was in the face amount of $56,000.00, what other life insurance policies did he have in force during his lifetime?

"Mr. Horwin: Just a second. Objected to as incompetent, irrelevant and immaterial. We are not suing on the other life insurance policies.

"The Court: I will overrule the objection. She may answer."

(R. T., p. 79.)

"Q. By Mr. Duque: In other words, Mrs. Cobin, were you or were you not having business dealings with Mr. Bloome (Reference is to dealings with the Company's agent, after the death of the insured) with regard to insurance policies on your life?

"Mr. Horwin: Objected to as immaterial, not within the issues of this case and incompetent evidence.

"The Court: I will overrule the objection."

(R. T., p. 81.)

During the direct examination of appellee's agent Bloome by appellee's attorney, the following occurred with reference to a meeting at the Cobins' home when the application was signed:

"Q. Now, at that same meeting in the evening or afternoon at the Cobins' home what, if anything, was said regarding the type or nature of the policies which Mr. Cobin wanted on his life or on the life of his wife?

"Mr. Horwin: Objected to on the grounds that the application will speak for itself. It is the best evidence. The parol evidence rule precludes this kind of testimony and it is not part of res gestae.

"The Court: I will overrule the objection."

(R. 93.)

"Q. What if anything was said at that conversation about the premium?

"Mr. Horwin: The same objection.

"The Court: I will overrule the objection."

(R. 93.)

Bloome was questioned regarding a conversation with the deceased and his wife with respect to a medical examination before issuance of the policy, as follows:

> "Q. And will you state the conversation?
>
> "Mr. Horwin: I object to this testimony on the grounds that the testimony is not competent, irrelevant and immaterial; upon the further grounds that there is no proper foundation, in that no claim is made in the answer in this case that a medical examination did not take place or that because of the failure of the medical examination a policy did not issue, but on the contrary the defendant contends a policy did issue.
>
> "The Court: I will overrule the objection. You may answer."
>
> (R. 101-102.)

Mr. Duque questioned Bloome about another conversation with the deceased before issuance of the policy:

> "Q. And when was the next conversation that you had with him?
>
> "A. Mr. Cobin and Mrs. Cobin did not keep the appointments and so I talked with Leo and Louise, two or three or four or five times in regard to the reasons of the delay.
>
> "Mr. Horwin: I move to strike the testimony on the grounds that it is not responsive to the question and upon all the grounds with regard to the impropriety.
>
> "The Court: I will deny the motion to strike."
>
> (R. 103.)

Upon redirect examination by Mr. Duque of Bloome, a question was asked with reference to the agent's pro-

posal which preceded the application for insurance with appellee:

"Q. Was this proposal for insurance a proposal for the issuance of a policy on a standard rate or on a rated basis?

"Mr. Horwin: Just a second. To which I object upon the grounds that the instrument is the best evidence of what it purports to be. If it is a proposal, the terms thereof can be read by the Court. That this is a most obvious effort now to violate the parol evidence rule and go beyond mere violation by introducing purported conversations, not even referring to a conversation, just asking the witness to give his interpretation.

"The Court: I will sustain the objection.

"Mr. Duque: May we offer this in evidence, your Honor. It is marked as plaintiff's Exhibit 15.

"The Court: It speaks for itself.

"Mr. Duque: But it is only for identification.

"The Court: But we will make it an Exhibit at this time.

"The Clerk: It is 15.

"The Court: Mr. Duque said it is only in for identification, but he is now offering it in evidence.

"Mr. Duque: I am now offering plaintiff's Exhibit 15.

"Mr. Horwin: To which we object.

"The Court: I will overrule the objection.

"Mr. Horwin: In making my objection I want the record to show I am referring to the objections I have already made with regard to this document at the time it was offered for identification.

"The Court: Yes. (Said document previously marked plaintiff's Exhibit 15 was received in evidence.)" (R. 261, 262.)

During the examination of appellee's general agent, Mr. Van Elgort, by Mr. Duque, appellee's counsel, the following occurred:

> "Q. Now, aside from the deposition, Mr. Van Elgort, in cross examination Mr. Horwin asked you a question to the effect that the payment which had been made by Mr. Cobin on his Application was a payment for a sub-standard A rated policy. Now, I show you the Application on Mr. Cobin and ask you whether this Application is for a non-rated policy or for a rated sub-standard A policy?
>
> "Mr. Horwin: To which I object on the grounds that the question in my opinion is a very gross example of an attempt to adduce violation of the parol evidence rule and also an attempt to adduce a conclusion, also an attempt to usurp the Judge's function with regard to the construction of a written instrument.
>
> "Mr. Duque: If the Court please, Mr. Horwin asked the question and I believe I have every right to rebut it by this testimony. I will admit that I would not have had the right otherwise.
>
> "Mr. Horwin: I didn't ask it. I did not ask that at all.
>
> "The Court: I will overrule the objection." (R. 310).

Appellant has not attempted to exhaust the instances in which evidence of conversations and negotiations leading up to issuance of the policy were admitted over objection. The record is replete with other examples, notably in the testimony of one Harry Koff (R. 167-176).

The admission of this plethora of evidence of negotiations and conversations prior to the issuance of the policy

vas, it is submitted, a clearly erroneous violation of the arol evidence rule.

It is a well established rule of substantive law that vidence of conversations and negotiations leading up to xecution of a contract in writing is inadmissible, since uch conversations and negotiations are deemed to have een merged in the contract.

*Lifton* v. *Harshman,* 80 Cal.App.2d 422, 432.
*Spangenberg* v. *Nesbitt,* 22 Cal.App. 274, 281.
*Maxwell* v. *Carlon,* 30 Cal.App.2d 356, 361.
*Simon* v. *Bemis Bros. Bag Co.,* 311 Cal.App. Sec. 378.

**2. The District Court committed prejudicial and reversible error in its admission into the record over objection of evidence which constituted inadmissible hearsay and self-serving declarations.**

Over appellant's objection, the Court permitted Richard Grosten, general agent for Manhattan Life Insurance Company, not a party to the action, to testify to conversations e had with business associates and officials of his company with respect to a policy owned by Mr. Cobin, and ssued by the Manhattan Company (R. 183). Some of hese discussions took place more than a year before the olicy in question was applied for by Mr. Cobin (R. 180).

These conversations were clearly hearsay as to appellant and were irrelevant and incompetent to any issue here involved.

Mr. Van Elgort, general agent for appellee, was permitted over objection to introduce in evidence a letter pur-

portedly written by him on February 22, 1954, to a member of appellee's company (R. 277-278; Def.'s Ex. I).

This letter reads as follows:

"February 22, 1954

Mr. Charles Grady
Midland Mutual Life Insurance Co.
Columbus, Ohio

Dear Mr. Grady: RE: Pol. #243946-47
Leo Cobin and Louise Cobin

The above policies were paid the company in error. Please return the premium of $123.50 paid in to the company on February 15th.

We had put these through on 10.8 plan for Mr. Chester Bloome the agent and had received the check for this commission on Friday and it is being returned to you herewith.

Yours very truly,

/s/ S. Van Elgort
S. Van Elgort, C.L.U."

SVE:ca

Clearly the admission of this letter was erroneous both on the grounds of hearsay and as a self-serving declaration. An examination of the letter shows the prejudicial character of this incorrect ruling by the Court.

Confronted with a similar situation in *Bloom* v. *Pacific Mutual Life Insurance Company,* 85 Cal.App. 419, 259 Pac. 496, the Court stated (85 Cal.App. 430):

"In further support of its appeal appellant alleges that the Court erred in refusing to admit in evidence a letter written by the defendant to Stillman, dated June 30, 1923. Also in refusing to permit in

evidence a letter from Stillman to the defendant returning the policies to the defendant, and a letter from the defendant's San Francisco office to Stillman, dated June 15, 1923. As to the third letter just mentioned, it refers to the fact that the defendant had issued a form of policy different from that actually applied for. As to the two other letters referred to, no authorities are cited to support the contention of appellant that private correspondence between the defendant and its agent, after the occurrence of an event, is admissible, and we assume that none can be cited, as it is self-evident that statements and letters passing between a principal and an agent in support of a defendant's contentions do not constitute evidence against a third party, though they may be admissible as admissions of a party writing the same when offered as admissions against interest."

Over objection, Mr. Van Elgort was permitted to testify that Bloome did not receive a commission on the policy issued on Mr. Cobin's life (R. 285).

This was clearly incompetent, irrelevant and immaterial, and a self-serving declaration which was erroneously admitted.

Numerous other instances of the reception of hearsay and self-serving declarations of a most serious character are referred to in Section 3 next following.

**3. The District Court committed prejudicial and reversible error in its admission into the record, over objection, of evidence relating to customs, practices and procedures of the appellee company unknown and uncommunicated to plaintiff's decedent.**

The Court received in evidence the deposition upon written interrogatories of Fred E. Stewart, Manager of the

Policy Record and Premium Collection Division of appellee's home office (R. 318). Over objections, Mr. Stewart testified as to the methods by which allegedly "Not Taken" policies are processed at the home office (R. 321-322). Over continued objections, he testified that he placed the legend "Not Taken March 3, 1954" on Mr. Cobin's policy after the policy reached his desk with the information that it was refused by the applicant, whereupon, he marked it "Not Taken." (R. 323-325). Mr. Stewart testified that he placed the mark thereon on March 3, 1954 (R. 326).

The following are characteristic excerpts from Mr. Stewart's testimony:

> "Q.13. Under what circumstances did you first see policy No. 243946 (Mr. Cobin's policy)?"
>
> "Mr. Horwin: Objection, for the same reasons just stated under the proceeding." (That objection related to irrelevancy, immateriality and incompetency of the evidence and the fact that it was not binding on plaintiff).
>
> "The Court: I will overrule the objection."
>
> "Mr. Duque: A. Well, it was placed on my desk from the incoming mail when it came to my desk to be processed as 'Not Taken'." (R. 323-324).
>
> "Q.15. On the cover page of Policy No. 243946, there appears in red ink the following 'Not Taken March 3, 1954'. Did you place these marks on Policy No. 243946?"
>
> "Mr. Horwin: Objection, for the reason that neither the insured or the beneficiary can be bound by any claimed marks placed by the insurer upon a life insurance done without the communication to the insured or beneficiary."

"The Court: I will overrule the objection."

"Mr. Horwin: Pardon me a minute. Any such claimed marks are incompetent, irrelevant and immaterial, not within the issues and not the best evidence as to the insured and beneficiary. Further objection is made that said claimed marks would be self-serving declarations as to the insured and beneficiary."

"The Court: I will overrule the objection."

"Mr. Duque: 'A. Yes'." (R. 324).

"Q.16: If your answer to the preceding interrogatory is yes, please state the purpose of and circumstances surrounding the placing of said marks on Policy No. 243946?"

"Mr. Horwin: The same objection for the reason as under the preceding objection."

"The Court: I will overrule the objection."

"Mr. Duque: A. The policy reached my desk with the information that the policy was refused by the applicant. I accordingly marked it 'Not Taken on March 3, 1954'."

"Mr. Horwin: Objection. Pardon me. Motion to strike so much of the answer as contains the following words, 'with the information that the policy was refused by the applicant. I accordingly' — My reason for the motion to strike is that the words 'information that' such and such was refused by the applicant is itself a conclusion and the only proper testimony would be by reference to the particular document or particular thing that is supposed to communicate information. This is a pure conclusion."

"The Court: I will deny the motion to strike." (R. 325).

Mr. Stewart was permitted to explain the meaning of the marks he placed on the policy (R. 326), and whether

the marks he placed on Mr. Cobin's policy were in conformity with the practices and procedures of appellee (R. 327), and in the balance of his testimony was permitted to answer many questions that constituted hearsay and self-serving declarations (R. 327-332).

The Court also received the deposition upon written interrogatories of Harold Fogg, Manager of the Methods and Procedures Division, comptroller department, of appellee company (R. 340).

Mr. Fogg testified regarding appellee's practices and procedures with respect to preparation and mailing of premium notices, over continuing objections by appellant (R. 345 to 349).

After testifying that appellee had no records of the premium notices sent out with respect to Mr. Cobin's policy (R. 350), Mr. Fogg was permitted to answer questions as to the marking "Not Taken March 3, 1954," over objections that the question called for conjecture, surmise, hypothesis and was not binding upon the insured or plaintiff (R. 351).

In further questions, Mr. Fogg was permitted to testify as to how appellee kept its records in the Tabulation Division; he was permitted to surmise how and when the premium notice of March 9, 1954, was mailed to Mr. Cobin, and was permitted to introduce into evidence documents of appellee of which neither Mr. Cobin nor appellant had any knowledge (R. 352 to 385; Deft. Exs. K, L, and M).

It will be readily apparent that the admission of the evidence referred to by the depositions of Mr. Stewart and Mr. Fogg was improper and greatly prejudiced appellant's

case. None of these practices and procedures were in any way known to Mr. Cobin or to appellant, and the only facts and procedures binding upon the insured or appellant would be those only which might have been communicated to them.

A reading of the record shows that despite objections that the customs, procedures and practices of appellee were not binding on appellant or Mr. Cobin, and despite the fact that the testimony of Mr. Fogg and Mr. Stewart was replete with hearsay, self-serving declarations and wholly immaterial and incompetent evidence, the Court nevertheless permitted the introduction thereof.

In *Paez* v. *Mutual Indemnity Insurance Company,* 116 Cal. App. 654, 3 P.2d 69, the court stated the rule here applicable (116 Cal. App. 660):

> "Appellant offered evidence as to the customs of the delivery of its policies transmitted to its agents for delivery, which, on objections of respondent, the court excluded. Proof of customs is not admissible to oppose or alter a rule of law or to change the legal rights or liabilities of parties as fixed by law. So also where a contract was not made with reference to customs evidence as to the existence thereof is immaterial * * * Usage should not be regarded at all unless it be of such a character as may be supposed to influence the parties to the contract. The evidence offered was as to the custom between the appellant and its agents. It was not shown, nor did appellant pretend that the insured knew or dealt with appellant with this usage in mind * * *."

In *Miller* v. *Stults*, 143 Cal. App. 2d 592, 300 P.2d 312, the court pointed out that evidence of custom or usage is inadmissible except as an instrumentality for the interpretation of a contract and then only when the parties to the contract were aware of the existence of the practices sought to be introduced (143 Cal. App. 2d 601-603).

In *Dutton D. Co.* v. *United States F. & G. Co.*, 136 Cal. App. 574, 247 Pac. 594, the trial court refused to admit evidence of custom and procedure in the insurance world in order to prove that a particular contract had not in effect been made. In holding that proof of custom was not admissible for the purpose, the court stated (136 Cal. App. 578-579):

> "The third point is that the trial court erred in refusing to allow the defendant to introduce evidence to show that the custom and usage in the insurance world was not to enter into oral contracts of compensation insurance. It is not claimed that such evidence would have assisted the court in interpreting any specific clause of the alleged contract. It is claimed that such evidence would have created a circumstance tending to show that the officers of the defendant corporation never made the alleged contract. For that purpose the evidence was not admissible. In Barnard v. Kellogg, 77 U.S. 383, at page 390 (19 L.Ed. 987), Mr. Justice Davis speaking for the court said: 'The proper office of a custom or usage in trade is to ascertain and explain the meaning and intention of the parties to a contract whether written or in parol, which could not be done without the aid of this extrinsic evidence.' In 17 C.J. 508, Section 77, the author says: 'Where the terms of an express contract are clear and unambiguous they

cannot be varied or contradicted by evidence of custom or usage, and this is true whether the contract is written or parol.' * * * In Lane v. Bailey, supra, the court said: 'The offer of the defendants to prove that it was the practice of their firm, on extending time, to demand collaterals, was not admissible. The question as to the extent of the pledge depended entirely on the agreement; and this was ascertainable from what was said or done by the parties, at the time, in relation to this particular transaction. No practice of the firm, in relation to their general transactions, could have affected the testimony relative to this particular transaction, one way or the other.' "

To the extent that the testimony of Fogg and Stewart as previously indicated constituted hearsay and self-serving declarations, the objections were obviously well taken and erroneously overruled.

To the extent that these witnesses testified as to matters of internal practices unknown to the insured and appellant, and as to the contents of records uncommunicated to the insured, they were not binding on him nor appellant and should have been excluded.

And to the extent that customary practice of appellee, unknown to the insured or appellant, was relied on for the purpose of showing that Mr. Cobin's policy was no longer in force despite the mailing to him of a notice of prospective premium due, despite the fact that neither witness was able specifically to testify as to particular circumstances under which Mr. Cobin's premium was sent out (R. 353) and that such testimony was based on surmise and

conjecture, it was improperly received for the purpose of nullifying Mr. Cobin's policy.

**4. The District Court committed prejudicial and reversible error in its admission into the record, over objection, of evidence in derogation of the attorney client privilege despite assertion of the privilege.**

At several stages of the trial, appellee attempted to elicit information which passed between appellant and her former attorneys, Irving I. Emmer and Ralph B. Herzog. The attitude of the trial Judge with respect to such questions reveals that he entertained little regard for attorney client privilege.

Early in the proceedings the following occurred:

> "Q. By Mr. Duque: When Mr. Herzog prepared your Complaint, you did state the facts to him, did you not, as to what had transpired?
>
> "Mr. Horwin: Objected to as calling for privileged communications between the witness and her attorney.
>
> "The Court: I will overrule the objection. She can answer that, as to what she told him, to the best of her knowledge.
>
> "Mr. Horwin: Your Honor, I think I have got to urge this point strongly. This is one of the most clearly privileged territories in the law.
>
> "The Court: But the question is general, just to the best of her knowledge. I thought it was just a general question. She can just answer yes or no.
>
> "Mr. Duque: I am not asking for the conversation. I am asking her whether or not she did tell the attorney the facts.
>
> "Mr. Horwin: It is the same thing.

"Mr. Duque: I am not asking for the facts, what the facts were.

"The Court: I overrule the objection.

"Mr. Horwin: That calls for a broad conclusion, as to whether she told something to an attorney.

"The Court: I will let her answer yes or no and then he can call for conversation." (R. 64).

"Q. By Mr. Duque: Well, when the original Complaint was prepared by Mr. Herzog, your then attorney, and Mr. Emmer, your then attorney, did you or did you not tell them the facts of the transaction and what had occurred, to the best of your knowledge, at that time?

"Mr. Horwin: The same objection, and upon the further grounds that this is an attempt to evade the privileged communication rule by asking the witness to describe the results of her conversation with her then attorney and draw her conclusions as to the content of the conversation which is the same thing as giving the whole privileged communication.

"The Court: No. I will overrule the objection. You can answer it."

Later in the case, Mr. Duque interrogated former attorney, Mr. Emmer, as follows (R. 395-396):

"Q. Mr. Emmer, you were Mrs. Cobin's counsel, were you not, after the death of Mr. Cobin?

"A. Yes.

"Q. All right. Did you have any discussions with Mrs. Cobin about the Midland Mutual policy as relating to the cancellation of the Manhattan policy and the replacement thereof by the Midland policy?

"Mr. Horwin: Objection upon the grounds that any such conversations would be privileged communications by and between the attorney and client.

"Mr. Duque: After all, this gentleman has waived his privilege with regard to Mr. Cobin.

"The Court: I will overrule the objection.

"Mr. Horwin: Just a moment. Your Honor, there is no waiver of the privilege of the plaintiff in this lawsuit by any testimony with regard to events prior to the death of the insured. This would be a parol evidence violation of communication between attorney and client, and it is just the same as if I were to call a representative of the Midland Mutual and ask him to tell me everything he disclosed to Mr. Duque with regard to the facts in this case.

"Mr. Duque: I will withdraw the question and ask a preliminary question, if I may, your Honor.

"The Court: All right.

"Q. By Mr. Duque: Did you have any conversations with Mrs. Cobin relating to the Manhattan Mutual Life insurance policy and the Midland life policy after the death of Mr. Cobin?

"Mr. Horwin: To which I object on the ground that they are communications and are privileged.

"Mr. Duque: I am not asking for a communication, Mr. Horwin. I am asking him only if he had any conversations, and that certainly isn't privileged.

"Mr. Horwin: There is a very clear rule of law that I am aware of, that you are not permitted, by reference to the purported subject matter of conversation, to get around the rule by asking him if such a particular subject matter was discussed.

"It is not relevant here, but in criminal law, the very fact that you would be able to adduce the purpose of conversation and what was discussed just in a statement of a conclusion would defeat the whole purpose of the privilege.

"The Court: I will overrule the objection. You may answer.

"A. There were conversations with regard to both policies."

Subsequently on re-direct examination by Mr. Duque the following occurred (R. 397-398):

"Q. Mr. Emmer, you were counsel for Mrs. Cobin when the complaint was prepared in this action, were you?

"A. In this action?

"Q. Yes.

"A. Yes.

"Q. And I show you the complaint which bears the names 'Ralph B. Herzog & Irving I. Emmer, by Ralph B. Herzog'. Did you have anything to do with the preparation of this complaint?

"A. Yes.

"Mr. Horwin: Just let me have that question.

(Question and answer read by the reporter.)

"Q. By Mr. Duque: And are the facts as set forth in this complaint and verified by Mrs. Cobin the facts which were told to you, as they existed at that time, by Mrs. Cobin?

"Mr. Horwin: Objection on the ground that they are privileged communication between attorney and client, and also on the ground that the instrument itself is the best evidence, being in the record.

"The Court: I will overrule the objection."

It is obvious that appellee was endeavoring by trenching on the attorney-client privilege to cast doubt on the veracity of appellant's amended complaint and to suggest to the Court that Mr. Cobin desired to keep his Manhattan policy in preference to appellee's policy.

In so doing, with the encouragement of the Court, appellee extracted information in violation of the attorney client privilege.

The Court should have sustained the objections to the questions and refused to permit the tendentious line of questioning employed by appellee's counsel.

It needs little citation of authorities to make the point that the privilege of confidential communication between client and attorney is regarded as sacred and that it should not be violated nor whittled away.

> "The attorney-client privilege is an important element in the effectiveness with which the counselor-at-law is to advise his client and safeguard the latter's interest. Where, as here, the right to the privilege is clearly established it should not be cast aside. The fact that the information contained in the communications might also be used for incidental purposes not entitled to the privilege is unimportant."
>
> *Holm* v. *Superior Court,* 42 Cal. 2d 500, 509, 267 P.2d 1025.

**5. The District Court committed prejudicial and reversible error in its admission into the record over objection of evidence outside the issues as indicated in the pleadings and otherwise immaterial, incompetent, irrelevant or improper.**

In addition to the instances previously cited, the record is encumbered with a welter of evidence which was improperly received, entirely beyond the scope of the issues made by the pleadings. Only a few examples will be given here:

The Court received in evidence over objection:

The planning memorandum for Mr. Cobin put out by a trust company, and admitted conversations relating thereto (Def. Ex. E; R. 89 to 90).

A letter referring to an appointment for a medical examination (R. 106; Def. Ex. E).

A conversation between appellant and Bloome after Mr. Cobin's death (R. 124-125).

The conversation of Mr. Koff and Mr. Cobin occurring a year before the transaction here involved (R. 159-160).

A letter dated December 29, 1954, from Mr. Grosten to Mr. Koff, with regard to why Grosten thought Mr. Cobin should keep his Manhattan policy rather than take appellee's policy (Def. Ex. F; R. 173-176).

Testimony as to what Mr. Grosten did in connection with Mr. Cobin's Manhattan policy (R. 180) and testimony as to whether Mr. Cobin cancelled the Manhattan policy (R. 189).

The significance and prejudicial character of the individual errors appears more clearly when the entire record is studied. But it cannot be doubted that the collective weight of the evidence erroneously and improperly received vitiated the trial and contributed markedly to the decision arrived at below.

III.

**The District Court Erred in Its Order of January 7, 1957, Denying Appellant's Motion to File a First Amended Complaint in the Form Lodged on December 18, 1956, and in Requiring the Inclusion of Paragraph 6 in the First Amended Complaint As Filed on February 18, 1957, As a Condition of Granting Permission to File an Amended Complaint.**

As appears from the statement of the proceedings before trial (pp. 2-4 of this Brief), the Court refused to permit appellant to file her first amended complaint as lodged (C. T. 10-12). It denied the motion upon appellee's suggestion that he would not object to the filing of an amended complaint if appellant alleged therein a redelivery of the policy to Bloome (R. 4a-7a; R. 8a-17a). Consequently she was obliged to incorporate paragraph 6 into the amended complaint as ultimately filed (C. T. 19).

This is significant as showing the fundamental conceptual error entertained by the Court from the very beginning with respect to the question of re-delivery of the policy to Bloome. As has been demonstrated in the preceding argument, that act would have no signficance, unless, as an offer to cancel, it was accepted by appellee while the offer was still outstanding, and upon notification to Mr. Cobin that the offer was accepted and the policy was cancelled.

This cardinal error permeated the trial court's approach to the case and gave rise to this mistaken view throughout the trial as to the contractual rights existing between the parties.

IV.

**The District Court Erred in Its Ruling of February 18, 1957, Denying Appellant's Motion to Strike Certain of Appellee's Proposed Interrogatories to Be Propounded to Harold G. Fogg and Fred E. Stewart and to Limit the Scope of Examination of Such Witnesses, and the Court Committed Prejudicial Error in Admitting into Evidence over Objection Said Interrogatories and the Answers Thereto Which Related to Customs, Practices, Procedures, Interpretations, Markings and Communications of Appellee Company and Its Employees Never Communicated to the Insured nor Known by Him.**

This matter has been fully treated in paragraph II, section 3 of the argument set out above, and is incorporated here by reference. It is noted at this point to show that the errors complained of by virtue of the introduction of said interrogatories into the record of this case had their inception from the very threshhold of the proceedings herein.

## CONCLUSION.

It is respectfully submitted that a complete study of the record must lead to the conclusion that a miscarriage of justice resulted here. The prevailing principles of law, when applied to the facts of this case, show:

1. That appellee accepted Mr. Cobin's application, issued him a policy, accepted his premium therefor and delivered the policy to him.

2. That at no time while Mr. Cobin was alive did appellee notify him that the policy was cancelled or accept any offer to cancel the policy or return his premium.

3. That no legally effective cancellation of the policy ever occurred in Mr. Cobin's lifetime.

4. That the policy was in full force and effect when Mr. Cobin died on March 5, 1954, and that the insurer's own policy record card showed that the policy did not lapse until March 10, 1954.

5. That his widow is entitled to recover on the complaint herein as beneficiary under said policy.

For the foregoing reasons, it is respectfully requested that this Court reverse the judgment of the trial court and direct the trial court to enter judgment for appellant.

Failing reversal of the judgment, with direction to enter judgment for appellant, the judgment should be reversed and the cause remanded for a new trial.

Respectfully submitted,

Leonard Horwin,
Hortense Stahl,
*Attorneys for Appellant.*

Erich Auerbach,
*Of Counsel.*

In the

# United States Court of Appeals

For the Ninth Circuit

In the Matter of the Application for a Writ of Habeas Corpus of COSMO A. DALOIA, *Appellant*,

v.

B. J. RHAY, Superintendent of the Washington State Penitentiary at Walla Walla, Washington, *Appellee*.

No. 15636

APPEAL FROM THE UNITED STATES DISTRICT COURT

For the Eastern District of Washington
SOUTHERN DIVISION

HONORABLE SAM M. DRIVER, JUDGE

## BRIEF OF APPELLEE



JOHN J. O'CONNELL,
*Attorney General,*

MICHAEL R. ALFIERI,
*Assistant Attorney General,*

*Attorneys for Appellee.*

Office and post office address: Temple of Justice, Olympia, Wash.

STATE PRINTING PLANT, OLYMPIA, WASH., 1956

In the

# United States Court of Appeals

For the Ninth Circuit

---

| | |
|---|---|
| the Matter of the Application for a Writ of Habeas Corpus of COSMO A. DALOIA, *Appellant*, v. J. RHAY, Superintendent of the Washington State Penitentiary at Walla Walla, Washington, *Appellee.* | No. 15636 |

---

APPEAL FROM THE UNITED STATES DISTRICT COURT

For the Eastern District of Washington
SOUTHERN DIVISION

HONORABLE SAM M. DRIVER, JUDGE

---

## BRIEF OF APPELLEE

---

JOHN J. O'CONNELL,
*Attorney General,*

MICHAEL R. ALFIERI,
*Assistant Attorney General,*

*Attorneys for Appellee.*

ice and post office address: Temple of Justice, Olympia, Wash.

## INDEX



## TABLE OF CASES



## STATUTES

In the

# United States Court of Appeals

For the Ninth Circuit

---

| | |
|---|---|
| n the Matter of the Application for a Writ of Habeas Corpus of COSMO A. DALOIA, *Appellant*, v. . J. RHAY, Superintendent of the Washington State Penitentiary at Walla Walla, Washington, *Appellee*. | No. 15636 |

APPEAL FROM THE UNITED STATES DISTRICT COURT

For the Eastern District of Washington
SOUTHERN DIVISION

---

HONORABLE SAM M. DRIVER, JUDGE

---

## BRIEF OF APPELLEE

### STATEMENT OF THE CASE

The appellant, Cosmo A. Daloia, was charged n the King County superior court with the crime f second degree assault. Following a trial to a jury nd pursuant to a finding of guilty, the appellant, n the 10th day of June, 1955, was adjudged guilty f the crime charged and sentenced to a term of not

more than ten years in the state penitentiary at Walla Walla, Washington. Subsequently, the petitioner attempted to have habeas corpus issue from the supreme court of the State of Washington. That petition was denied on October 19, 1956. Appellant then petitioned the supreme court of the United States for a writ of certiorari, which writ was denied on February 26, 1957. Following this denial, a petition was addressed to the district court of the United States for the eastern district of Washington, southern division, for a writ of habeas corpus. This petition was denied by Judge Driver on May 29, 1957, from which order this appeal was taken.

## STATEMENT OF QUESTIONS INVOLVED

The only serious question raised by the appellant's brief is the constitutionality of the alternative punishment provision of the Washington statute on assault in the second degree, RCW 9.11.020. The appellee respectfully submits that an initial question is presented, however, of whether the constitutionality of a state criminal statute is at all reviewable in a habeas corpus proceeding before this court.

## ARGUMENT

The appellee submits that the constitutional ıestion raised by the appellant is not here review-ɔle under *Whitacre v. Traeger*, 17 F. (2d) 767. ıat decision held in effect that the constitutionality a state criminal statute is not reviewable in the nth circuit court in a writ of habeas corpus, but at the petitioner will be left to his remedy of rect proceedings so that the question can ultimately presented to the United States supreme court.

Assuming the constitutional issue properly be-re the court, however, it is readily observed that e appellant's position is based on wholly untenable terpretations of both Washington statutes and the se of *In re Olsen v. Delmore*, 48 Wn. (2d) 545. ıe criminal statute under which the appellant was nvicted, RCW 9.11.020, contains the following ovision as to punishment:

> "Shall be guilty of assault in the second degree and be punished by imprisonment in the state penitentiary for not more than ten years or by a fine of not more than one thousand dollars, or by both."

These words should be compared with those RCW 9.41.160 which the court condemned as ıconstitutional in *In re Olsen v. Delmore*, *supra*, follows:

> " 'A violation of any preceding provisions

of this chapter is punishable by a fine of not more than five hundred dollars or imprisonment in the county jail for not more than one year or both, *or* by imprisonment in the penitentiary for not less than one year nor more than ten years.' (Italics ours.)"

Penalty provisions, such as the one found in our second degree assault statute, are readily distinguished therefrom as was pointed out by *In re Olsen v. Delmore, supra,* at page 548, as follows:

> "In our view, however, the penalty statutes to which reference has just been made are substantially different in form and structure from the penalty section of the uniform firearms act (RCW 9.41.160). In the latter section, unlike the others, the provisions for a fine or county jail sentence are linked together with the words 'or both,' after which, and separated by another conjunctive 'or,' the provision for penitentiary punishment is set out. This seems to be a pretty clear indication that the legislature thereby intended to vest in prosecuting officials the discretion to charge as for either a gross misdemeanor or a felony."

By these words, the court has clearly shown its intention to restrict its finding of unconstitutionality to the particular statute in question, i.e., the uniform firearms act. The appellant's interpretation would stretch this opinion out beyond its obvious import and plain language.

Finally, that this crime of second degree assault is a felony and punished as such is clear. RCW 9.95-

010 absolutely requires that one convicted of a crime be sentenced for the maximum term therefor provided. RCW 9.01.020 provides that every crime which may be punished by imprisonment in the state penitentiary, as is the case here, is a felony. The appellant's theory that one convicted of second degree assault might be sentenced as for a misdemeanor is completely untenable in the light of these statutes.

## CONCLUSION

The constitutionality question here raised as to this assault statute does not appear to the appellee to be properly before this court. But, if the matter be considered, it is submitted that the Washington statute cited can only be read as requiring that one convicted of second degree assault be sentenced as for a felony, i.e., ten years' imprisonment in the state penitentiary. Therefore, the appellee can only urge that the order of the district court denying the application for habeas corpus be affirmed.

Respectfully submitted,

JOHN J. O'CONNELL,
*Attorney General,*

MICHAEL R. ALFIERI,
*Assistant Attorney General,*

*Attorneys for Appellee.*

No. 15637

# United States Court of Appeals

## For the Ninth Circuit

ARINE COOKS & STEWARDS, AFL, a voluntary association, JAMES O. WILLOUGHBY, *et al.*, *Appellants*

vs.

PANAMA STEAMSHIP CO. LTD., a corporation, *et al.*, *Appellees*

PPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF WASHINGTON SOUTHERN DIVISION

## BRIEF OF APPELLEES

SUMMERS, BUCEY & HOWARD,
CHARLES B. HOWARD,
JOHN D. MOSSER,
*Attorneys for Appellees.*

0 Central Building,
attle 4, Washington.

THE ARGUS PRESS, SEATTLE

No. 15637

# United States Court of Appeals

## For the Ninth Circuit

ARINE COOKS & STEWARDS, AFL, a voluntary association, JAMES O. WILLOUGHBY, *et al., Appellants*

vs.

PANAMA STEAMSHIP CO. LTD., a corporation, *et al., Appellees*

PPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF WASHINGTON SOUTHERN DIVISION

## BRIEF OF APPELLEES

SUMMERS, BUCEY & HOWARD,
CHARLES B. HOWARD,
JOHN D. MOSSER,
*Attorneys for Appellees.*

0 Central Building,
attle 4, Washington.

THE ARGUS PRESS, SEATTLE

## SUBJECT INDEX

## TABLE OF CASES CITED

**CONSTITUTION OF UNITED STATES**



**FEDERAL STATUTES**

## TREATIES AND CONVENTIONS



## LEGISLATIVE RECORDS

# United States Court of Appeals
## For the Ninth Circuit

| | |
|---|---|
| ARINE COOKS & STEWARDS, AFL, a voluntary association, JAMES O. WILLOUGHBY, *et al.*, *Appellants*, vs. ANAMA STEAMSHIP CO., LTD., a corporation, *et al.*, *Appellees*. | No. 15637 |

PPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF WASHINGTON SOUTHERN DIVISION

## BRIEF OF APPELLEES

### JURISDICTIONAL STATEMENT

This is an appeal from an interlocutory injunction sued by the District Court on the complaint (R. 4 *ff*) Appellees for injunctive relief against and damages om Appellants for intentional interference with the ghts of the Liberian vessel "NIKOLOS", its owner, arterer and master to discharge a cargo at Tacoma, ashington, pursuant to contract of affreightment. ne cargo had been loaded at a Mexican port.

Jurisdiction of the District Court was based on Title U.S.C. §1331, the case arising under Article III, ction 2 of the Constitution of the United States by rtue of the maritime nature of the Appellees' cause of it; and the case also arising under Articles VII and IV of the Treaty of Friendship, Commerce and Navition between the United States and the Republic of beria, 54 Stat. 1739; TS 956; 201 LNTS 163 (Text

of above Articles in Appendix B), guaranteeing the rights infringed by Appellants. The right to seek equitable relief for a maritime tort is preserved by Title 28 U.S.C. §1333.

The jurisdiction of this court to review the order of the court below granting a temporary injunction is found in Title 28 U.S.C. §1292(1); and is also claimed by the Appellants under Title 29 U.S.C. §110.

## APPELLEES' STATEMENT OF CASE

Appellees, as plaintiffs below, commenced this suit seeking injunctive relief and damages from Appellants and other defendant unions and union members. The proceedings in the trial court to date have been limited to hearings upon Appellees' application for a restraining order or temporary injunction (R. 22, 118).

The only question considered and decided at these preliminary hearings in the court below was whether U. S. labor unions and their members could be restrained and enjoined from interfering, by picketing conducted at a United States port, with the completion of a voyage by a foreign-owned vessel, lawfully registered under the flag of a friendly foreign nation, engaged on an international voyage, and manned entirely by alien crew members serving under foreign shipping articles (See Findings of Fact I, II, V, VI, XII, XIII, R. 31-34; Conclusions of Law III, R. 37. Decision of District Judge Boldt, R. 118, *et seq.*). The trial judge answered this question in the affirmative and granted Appellees a temporary injunction *pendente lite* against Appellants (R. 41-3).

The steamship "NIKOLOS," owned by Appellee Panna Steamship Co., Ltd., a foreign corporation (Finding I, R. 31), is a foreign merchant vessel registered nder the laws of the Republic of Liberia (Finding V, . 32). Appellee Paleocrassas, a citizen of Greece, was aster (R. 13) and Appellee Seatankers, Inc., a forgn corporation (Finding II, R. 31) was time charrer of the "NIKOLOS" (R. 11).

None of the officers or crew members aboard the NIKOLOS" were citizens of the United States (R. 13). ney were serving upon Articles of Employment under e laws of Liberia which were opened at Cardiff, ales, on May 24, 1954 (Finding VI, R. 32, 13).

The "NIKOLOS" loaded a cargo of bulk salt at a west ast of Mexico port for transport to and discharge at acoma, Washington (R. 14; Finding V, R. 32). It was tramp steamer which had not been engaged in any ior voyages carrying salt from Mexican to United ates ports before the voyage in question (R. 76).

In their opening brief Appellants have ingeniously but incorrectly—characterized the voyage being perrmed by the "NIKOLOS" as:

"coastal shipping" (Appellants' Br. 2)
"coastal trade" (Appellants' Br. 9)
"Pacific Coast shipping trade" (Appellants' Br. 19)

is rather obvious effort by Appellants to pin a *local* bel on the voyage of the "NIKOLOS" is misleading and proper.

The term "coastwise" is used in 46 U.S.C. §883, deing vessels documented under the laws of the United

States which are lawfully entitled to carry cargoes between ports of the United States, 46 U.S.C. §883; and also in 46 U.S.C. §808, referring to the "coastwise trade" in connection with the enrollment, licensing, sale and charter of vessels.

Neither of the above statutes applies to the "NIKOLOS," which is a foreign-owned and foreign-registered ship, and which was not engaged in *coastal* or *coastwise* trade; as those terms are normally used in statutes and in terminology of maritime commerce, but in *international* trade and a *foreign* voyage.

There was no labor dispute, strike or discontent among the officers and crew members aboard the "NIKOLOS," or between the shipowner, charterer and members of the crew (R. 14). There is no evidence that any members of the crew of the "NIKOLOS" were members of any U. S. labor union (R. 67). In fact, the master testified that officers and crew members of the vessel were affiliated with various Greek unions (R. 14, 76).

Upon arrival of the "NIKOLOS" in Tacoma harbor on the early morning of June 10, 1957, a small cabin cruiser owned and manned by some of the Appellants intercepted the "NIKOLOS" in the harbor (R. 15). This cabin cruiser bore one or more signs "PICKET BOAT" (R. 59) and on or about June 14 an additional sign was displayed on the picket boat reading substantially as follows: "AFL-CIO seamen protest loss of their livelihood to foreign flag ships with sub-standard wages or sub-standard conditions" (R. 60, 56, and see Plaintiffs' Exhibit 1 and 2 for pictures of the picket boat cruising around the "NIKOLOS") .

As a result of the more or less continuous activities f the above-described picket boat operated by Appel- nts the consignee of the salt cargo at Tacoma would ot provide a berth where the cargo could be dis- harged, being fearful that shore and plant workers ould refuse to cross threatened picket lines and result a forced shutdown of the Hooker Electrochemical lant (R. 100-104 and Findings XI, XII, XIV at . 33-34).

Although otherwise ready and entitled to proceed to tended discharge dock at Tacoma (Finding VIII, . 33) the "NIKOLOS" was forced to remain at anchor Tacoma harbor from June 10 until June 17 due to e inability of Appellees to obtain assignment of a scharge berth and the refusal of third parties to pro- de tugs and pilotage assistance to the intended dis- harge dock while picketing activities by Appellants d others continued around the "NIKOLOS" (Finding IV, R. 34, 82-86 and 110). Repeated attempts to ob- in a discharge berth between June 10 and June 13 ere unsuccessful because of the picketing activities d threats of picketing by Appellants (R. 11, 13, 16).

While Appellant Willoughby referred in his testi- ony to an alleged agreement of the International ransport Federation which he claimed had some bear- g upon the "wages, hours and working conditions" hich would have to be maintained on a vessel such as e "NIKOLOS" when operating in a so-called "coastal peration" (R. 28-9) Appellants did not produce any ch agreement and did not establish its applicability the "NIKOLOS" as claimed (R. 114).

The Court found that Appellants would continue their unlawful activities unless restrained (Findings XII and XIV, R. 34, 122), causing Appellees and the public substantial and irreparable injury (Findings XVII, XVIII and XIX, R. 35, 36, 122); that there were no public officers charged with the duty of protecting the "NIKOLOS" from the picketing (Finding XXII, R. 36, 127); that Appellees had no adequate remedy at law (Finding XXI, R. 36, 122) and that Appellees would suffer greater injury if an injunction were not granted than Appellants would if one were issued (Finding XX, R. 36, 122).

The Court concluded that there was no "labor dispute" within the meaning of the Norris-LaGuardia Act and that that Act was inapplicable because of the foreign nature of the dispute (Conclusions I and II, R. 37, 121). Judge Boldt also stated that upon the Findings made that Act would not prevent an injunction, even if it were applicable (R. 121 *ff*).

The question of damages was left for subsequent trial.

## ARGUMENT

### Summary of Argument

Appellants' sole argument on this appeal is that the Norris-LaGuardia Act (29 U.S.C. §101, *et seq.*) deprived the court below of the power to issue an injunction, claiming that the facts present a "labor dispute" within the literal sweep of the Act:

> "Its definition of 'labor dispute' is satisfied if the controversy concerns terms or conditions of em-

ployment, without additional qualification." (Appellants' Br. 9-10)

We contend on behalf of Appellees that the Act must construed in the light of Congressional intent, and at no Congressional intent is evident, either in the atement of purpose in the Act, or in its legislative hisry, to include within the restrictive provisions of the t cases involving terms and conditions of employent of foreigners, by foreigners, on foreign-flag vesls making isolated or infrequent calls at United ates ports.

Furthermore, Appellees contend that the universal d all-inclusive application of the Act claimed by Apllants should not be implied by the courts, with the ave international consequences that would flow from and that it has never been the policy of the courts to extend the application of such universal language comparable cases.

The Supreme Court of the United States has held e other major Act of Congress designed to promote llective bargaining (the Taft-Hartley or Labor Manement Relations Act, 29 U.S.C. §141 *ff*) inapplicable facts involving a foreign vessel identical to the prest case.

To find the Norris-LaGuardia Act applicable and us require collective bargaining on this foreign flag ssel without benefit of the aid of the Taft-Hartley Act chinery would violate the treaty rights of Appellees 4 Stat. 1739—Text in Appendix B).

For these reasons, it is the position of Appellees that

a protest such as was made in this case by an American union as to standards of wages and conditions of employment maintained on a foreign-flag vessel, engaged on a foreign voyage, and manned by a foreign crew is not a "labor dispute" within the meaning of the Norris-LaGuardia Act. Therefore, the granting of a temporary injunction by the District Court was entirely proper.

### A. The Universal Language in the Norris-LaGuardia Act Is Limited to Accomplishment of Congressional Intent

While it might appear from an initial reading of the definitions in the Norris-LaGuardia Act, 29 U.S.C. §113 (See Appendix to Appellants' brief and Appendix C to this brief), that the facts of this case fall within the literal language of the Act, courts have uniformly refused to accept literally such language in the Act.

The absurdities of a literal and verbatim construction of this particular section of the Act were clearly demonstrated in *Donnelly Garment Co. v. International L. G. W. Union* (W.D. Mo. W.D. 1937) 20 F.Supp. 767, where the court stated at page 770:

> "We have said that certain declarations in section 13(a) cannot be taken literally. To illustrate: Section 13(a) declares that 'a case shall be held to involve or grow out of a labor dispute when the case involves persons who are engaged in the same industry, trade, craft, or occupation.' But A and B, both manufacturers of ladies' garments, may have a controversy with each other over a contract involving the sale and purchase of real estate.* * *

It would be nonsense to say that that controversy involves or grows out of a 'labor dispute.'

* * * * * * * *

"If any intelligent meaning is to be gathered from section 13, it is necessary that the several provisions of the section shall be read together, although grammatically its parts are independent. When the several provisions of the section are read together, it is clear that the definition of 'labor dispute' given in subdivision (c) must be read into subdivisions (a) and (b)."

*Donnelly Garment Co. v. International L. G. W. Union,* 20 F.Supp. 767, 770.

The Supreme Court of the United States has in at east two instances imposed limitations on the broad nd all-inclusive language found in the Norris-Laguardia Act.

In *Columbia River Packers Association v. Hinton,* 15 U.S. 143, 62 S.Ct. 520, 86 L.ed. 750, it declined to nd a "labor dispute" in a controversy between a fish acking company and a fishermen's union involving rice setting practices. The court in 1941 stated:

"We recognize that by the terms of the statute there may be a 'labor dispute' where the disputants do not stand in the proximate relation of employer and employee. But the *statutory classification, however broad, of parties and circumstances to which a 'labor dispute' may relate* does not expand the application of the Act to include controversies upon which the employer-employee relationship has no bearing."

*Col. River Pkrs. Assn. v. Hinton,* 315 U.S. 146-7, 86 L.ed. 753 (Italics added for emphasis)

So also in *Bakery Sales Drivers Union v. Wagshal,* 333 U.S. 437, 68 S.Ct. 630, 92 L.ed. 792 (1948), the court stated:

> "The mere fact that it is a labor union representative rather than a bill collector who, with or without the creditor's consent, seeks to obtain payment of an obligation, does not transmute a business controversy into a Norris-LaGuardia 'labor dispute.' "

> *Bakery Sales Drivers Union v. Wagshal,* 333 U.S. 437, 444, 92 L.ed. 792, 797.

In this case, Appellants do not purport to be the collective bargaining representatives of any officers or members of the crew of the "NIKOLOS." The testimony of the Master of the vessel shows that none of the crew members were affiliated with the Appellant union (R. 15).

The obvious purpose of the picketing by Appellants of this foreign flag vessel was an attempt to prevent the "NIKOLOS" from engaging in the international bulk salt transport trade between Mexican and United States ports in competition with U. S. flag vessels upon which members of the Appellant union would be entitled to seek positions as crew members. See Affidavit of Appellant Willoughby in Response to Order to Show Cause (R. 25). Finding of Fact XXIV (R. 36-7) is to the same effect and was included in the Findings at the express request of counsel for Appellants (R. 135).

Admission of the same purpose for the picketing activities is acknowledged in Appellants' brief, where counsel refer to the picketing as a "protest" against "a

rious threat to the employment security of MCS mem-
ers" (Br. 9).

Although a protest may have been deemed justified
Appellants as to whether the "NIKOLOS" should be
lowed to engage in this particular bulk salt cargo
ade, and although Appellants claim that this for-
gn-flag vessel pays lower wages and provides lower
andards of working conditions to members of its crew
an would be required on U.S. flag vessels engaged in
e same salt cargo trade, this does not create a "labor
spute" within the scope of the Norris-LaGuardia
ct. This will become apparent from an examination of
e following additional cases where federal courts
ve found it proper to restrict the literally universal
nguage found in the Norris-LaGuardia Act, and par-
cularly in the section of the Act containing definition
terms such as "labor dispute" (29 U.S.C. §113).

For example, where the United States government
d taken over the operation of coal mines in this coun-
y, and was acting in the commonly accepted status of
employer, the United States Supreme Court in 1947
ld the Norris-LaGuardia Act inapplicable to the gov-
nment in *United States v. United Mine Workers,* 330
S. 258, 67 S.Ct. 777, 91 L.ed. 884. In affirming the in-
nctive relief granted by the lower court, the Supreme
ourt stated:

> "The purpose of the Act is said to be to contribute to the worker's 'full freedom of association, self-organization, and designation of representatives of his own choosing, to negotiate the terms and conditions of his employment, and that he shall be free from the interference, restraint, or coer-

cion of employers of labor, or their agents, in the designation of such representatives . . . for the purpose of collective bargaining . . . ' These considerations, on their face, obviously do not apply to the Government as an employer or to relations between the Government and its employees."

*United States v. United Mine Workers,* 330 U.S. 274, 91 L.ed. 903.

In the last term, the Supreme Court ruled that the Norris-LaGuardia Act did not prohibit specific performance of a collective bargaining agreement provision for arbitration. *Textile Workers Union v. Lincoln Mills,* 353 U.S. ....., 77 S.Ct. ....., 1 L.ed.(2d) 972, 981-2.

Following the *Lincoln Mills* case, *supra,* the United States District Court at Brooklyn, New York, in two as yet unreported decisions, has held that the Norris-LaGuardia Act does not prohibit injunctions even against American unions charged with striking against an *American* steamship company manned by members of the American union where collective bargaining was found inappropriate.

In *A. H. Bull Steamship Co. v. Seafarers' International Union,* Eastern District New York Civil No. 18007, an opinion issued on September 27, 1957 by U.S. District Judge Bruchhausen held that a picket line of the union could be enjoined where it was in violation of an unexpired collective bargaining agreement between the parties which contained a no-strike clause.

In a companion case, *A. H. Bull Steamship Company v. National Marine Engineers' Beneficial Association and International Organization of Masters, Mates and*

*ilots,* Eastern District New York Civil No. 18060, an pinion by the same judge issued on October 17, 1957 eld that picketing by the defendant unions could be ıjoined since the members of the unions were "superisors" under the National Labor Management Relaons Act of 1947, 29 U.S.C. §164(a), which specifically rovides that supervisors are not "employees for the urpose of any law, either national or local, relating to ollective bargaining."

The decisions in the two *Bull Steamship Company* ases, *supra,* are particularly significant in this case nce they involve strike and picketing activities by an *merican* labor union against an *American* steamship ompany which manned its vessels with *American* seaen. Nevertheless, the U.S. District Court in New ork found in the two *Bull* cases that the NorrisaGuardia Act did not prevent the issuance of inıctions. In the present case, the factual situation is ırther removed from the restrictions of the Act than e two *Bull Steamship Company* cases, *supra,* since *American seamen* were employed on the "NIKOLOS" ıd the American union (Appellant) has no basis to aim collective bargaining rights as to crew members ı the "NIKOLOS."

In *Compania Naviera Hidalgo S.A. v. Benz* (D.Ore. 52) Civil No. 6629, a strikingly similar situation to e facts of this case was before District Judge Soloon. It involved another Liberian flag, foreign owned ssel, the SS "RIVIERA" at Portland on an internaonal voyage. Injunctive relief was there sought by the reign shipowner against representatives of an Ameri-

can maritime labor union picketing on behalf of members of the crew of the "RIVIERA" who had begun a sit-down strike in protest against wages and working conditions on the vessel. Only the participation of the crew distinguishes that case from the present case, where no strike or labor discontent was present on the "NIKOLOS" (R. 14).

In granting an injunction to the foreign shipowner against the American seamen's union in the *Benz* case, *supra,* Judge Solomon in an unreported opinion issued November 22, 1952 held the Norris-LaGuardia Act inapplicable to the activities of both the crew and the American union for the following reasons:

> "It is a well-established rule when seamen sign articles on a vessel for a voyage they work under different conditions from workers on the shore and they must of necessity be governed by different rules with regard to their right to strike. Seamen are wards of the Admiralty, that is, great care has been taken by the United States and other nations to safeguard their rights and protect them from injustice. In view of such paternal attitude, the courts have held that it is not only right and proper but also absolutely necessary that seamen must strictly adhere to their contracts. 'When articles are signed by a crew for a voyage all bargaining individual or collective is ended for the duration of the voyage. A contract is made binding both on the owner and the seamen that is lawful, if the articles comply with the statutes, and should be lived up to scrupulously.' *Rees v. U.S.,* 95 F. 2d 784, 791, 792. In this case the seamen signed articles which entitled them to the same rights, privileges and working conditions as British sea-

men. The provisions of the articles are the standard articles used for foreign voyages in Great Britain and were arrived at through collective bargaining. In addition thereto, such articles were approved by the German Labor Office for the German seamen who constitute the majority of the crew at the time they signed the articles in Bremen, Germany. Therefore *they may not now in a foreign port during the period for which they signed on, either themselves or through the Sailors' Union of the Pacific or any other bargaining agent, attempt to reopen the question of wages, hours and working conditions which had previously been agreed upon in the articles which they had signed with the vessel.*" (Italics added for emphasis)

> *Compania Naviera Hidalgo S.A. v. Benz* (D. Ore. 1952) Civil No. 6629 — unreported (Complete Opinion in Appendix ~~D~~ E to this brief).

An appeal of the above case was dismissed by this Court as moot, *Compania Naviera Hidalgo S.A. v. Benz* (1953) 205 F.2d 944.

The foregoing authorities clearly establish that the Norris-LaGuardia Act only affects disputes over terms and conditions of employment which Congress intended to be settled by collective bargaining procedures and that it is totally inapplicable to a dispute involving terms and conditions of employment of foreign seamen aboard a foreign vessel, where the existence of articles makes collective bargaining inappropriate.

Cases relied upon by Appellants as upholding the independent right of a union to picket an employer competing with employers with whom the union has

contracts (Br. 11-13) are all distinguishable, since those cases involve situations where collective bargaining was appropriate between the employer and his employees, while collective bargaining is not applicable in the present case because of the existence of shipping articles.

**B. Nothing in the Norris-LaGuardia Act Itself or Its Legislative History Indicates a Congressional Intent to Make the Act Applicable to Controversies Involving Terms and Conditions of Employment of Alien Seamen on Foreign Flag Vessels**

The Norris-LaGuardia Act contains no express statement that it is to be applicable to disputes involving employment aboard foreign ships or in foreign commerce generally.

Appellants in their brief suggest that the rejection of an amendment offered by one of the principal opponents of the bill, which would have made the act inapplicable to certain disputes involving "interstate or foreign commerce", indicates that the Norris-LaGuardia Act was intended by Congress to be applied to instrumentalities of "foreign commerce" such as the "Nikolos" even while engaged on an international voyage (Br. 11).

The full amendment offered by Congressman Beck, which he proposed to insert after the preamble paragraph of Section 102, was as follows:

> "Provided, however, That neither this section nor any subsequent section of this bill shall apply to any labor dispute which involves the suspension or discontinuance of a public utility whose con-

tinuous operation is essential to the property, health, and lives of the people of any State or community. In such cases where the welfare, health or lives of *a* (sic) public are concerned who are not parties to such labor dispute, or where a labor dispute involves the obstruction of any instrumentality of interstate or foreign commerce, in such event the power of a U.S. Court to grant injunctive relief in the interests of the public in accordance with the principles of equity jurisprudence shall not be denied or abridged, anything in this act to the contrary notwithstanding."

75 Congressional Record 5503.

It will be observed that the above amendment, which was proposed by a leading opponent of the measure, was in reality a parliamentary maneuver seeking to emasculate the bill. On the same page of the Congressional Record appears another similar amendment, also proposed by Congressman Beck, which was also rejected by the House of Representatives. This latter amendment would have specifically exempted the United States Government from the application of the Act.

In *United States v. United Mine Workers, supra,* the United States Supreme Court dealt with the suggested inferences of legislative intent to be found in the rejection of both of these amendments, and with an argument similar to that advanced by Appellants herein. In speaking of the rejection of the last noted amendment, the Supreme Court said:

"Obviously, this incident does not reveal a Congressional intent to legislate concerning the rela-

tionship between the United States and its employees."

*United States v. United Mine Workers,* 330 U.S. 258, 277, 67 S.Ct. 777, 91 L.ed. 884, 904.

In a concurring opinion by Mr. Justice Frankfurter he pointed out that no significance as to legislative intent could be implied from the rejection by the House of Representatives of the particular amendment cited by Appellants at page 11 of their brief. *United States v. United Mine Workers,* 330 U.S. 258, 318, 91 L.ed. 884, 925, and see footnote 4 to opinion.

A careful reading of the reports on the bill by the Committees of the House and of the Senate, and an examination of the legislative debate on the bill, fail to reveal that Congress ever considered the question now raised as to whether the Norris-LaGuardia Act would be applicable as to an instrumentality of foreign or international commerce such as this foreign owned, foreign flag and alien manned vessel, the "NIKOLOS." If anything, a contrary intention is to be derived from the not infrequent use of the adjective "American" during the course of legislative debate on the bill. For example:

Congressman Dyer, speaking in favor of the bill, stated:

" * * * necessary for the Congress to *declare for the United States a policy affecting American labor.*"

75 Congressional Record p. 5465.

Congressman Blanton, speaking in opposition to the bill:

"I believe earnestly in a proper *American* standard of wages, and an *American* standard of working conditions, and an *American* standard of working hours."

75 Congressional Record p. 5482.

Congressman Fernandez, speaking in favor of the bill, said:

"For years the *American* working people * * * ".

75 Congressional Record p. 5513.

(Italics added for emphasis)

Similarly, Senator Norris, in submitting the Majority report for the Senate Committee on Judiciary, favoring passage of the bill, referred to and quoted from the platform plank of one of the major political parties, advocating passage of such legislation to carry out pledges made to the "people of the United States." 72d Congress 1st Session, Calendar No. 176, Senate Report No. 163, at page 8.

Appellees submit that it would be quite improper to construe the above as an indication of any legislative intent to extend the applicability of the provisions of the Norris-LaGuardia Act to affect in any way the terms and conditions of employment on a foreign owned vessel, flying the Liberian flag, and manned by an entirely alien crew consisting of Greek, Egyptian, Portuguese and British nationals (R. 13, 32), particularly where the record shows that none of the crew members were affiliated with any of the defendant unions (R. 15).

**C. Acts of Congress Are Limited to Domestic Effect and Do Not Apply to Foreign Vessels, in the Absence of a Clear Expression of Legislative Intent to the Contrary**

While the Supreme Court of the United States has not yet been faced with the question of whether the Norris-LaGuardia Act was intended by Congress to extend to foreign and international situations such as in the present case, it has long adhered to a presumption of domestic intent only in construing statutes of the United States.

In 1909 the Supreme Court held that the Sherman Anti-Trust Act, 15 U.S.C. §1-7 was not applicable to acts done by an American corporation in Costa Rica. In *American Banana Co. v. United Fruit Co.,* 213 U.S. 347, 29 S.Ct. 511, 53 L.ed. 826, referring to the universal language in the Sherman Anti-Trust Act, the Supreme Court stated:

> "Words having universal scope, such as 'every contract in restraint of trade,' 'every person who shall monopolize,' etc., will be taken as a matter of course, to mean only everyone subject to such legislation, not all the legislator subsequently may be able to catch."
>
> *American Banana Co. v. United Fruit Co.* (1909) 213 U.S. 347, 357, 29 S.Ct. 511, 53 L.ed. 826, 832.

In fields closer to the problem before this Court, the Supreme Court of the United States has recently declined to extend the universal "any seaman" as used in the Jones Act, 46 U.S.C. §688 to make that Act applicable to a foreign seaman injured aboard a foreign

flag ship in a foreign port, although jurisdiction of the parties was temporarily present in the United States. *Lauritzen v. Larsen,* 345 U.S. 571, 73 S.Ct. 921, 97 L.ed. 1254.

Preliminarily, the Supreme Court recognized in *Lauritzen, supra,* the problem of statutory construction involved in a case having some striking similarities on international problems to those in the present case. The court stated:

> " * * * we are simply dealing with a problem of statutory construction rather commonplace in a federal system by which courts often have to decide whether 'any' or 'every' reaches the limits of the enacting authority's usual scope or is to be applied to foreign events or transactions."
>
> *Lauritzen v. Larsen,* 345 U.S. 571, 578-9, 73 S.Ct. 921, 97 L.ed. 1254, 1265.

The importance of the law of the flag of registry of the vessel was recognized by the Supreme Court in *Lauritzen, supra,* when it stated:

> "Perhaps the most venerable and universal rule of maritime law relevant to our problem is that which gives cardinal importance to the law of the flag. Each state under international law may determine for itself the conditions on which it will grant its nationality to a merchant ship, thereby accepting responsibility for it and acquiring authority over it. * * *
>
> "This Court has said that the law of the flag supersedes the territorial principle, even for purposes of criminal jurisdiction of personnel of a merchant ship, because it 'is deemed to be a part of the territory of that sovereignty (whose flag it

flies), and not to lose that character when in navigable waters within the territorial limits of another sovereignty.' * * *

"Some authorities reject, as a rather mischievous fiction, the doctrine that a ship is constructively a floating part of the flag-state, but apply the law of the flag on the pragmatic basis that there must be some law on shipboard, that it cannot change at every change of waters, and no experience shows a better rule than that of the state that owns her."

*Lauritzen v. Larsen* (1953) 345 U.S. 571, 584-5, 73 S.Ct. 921, 97 L.ed. 1254, 1269.

In the specific field of labor legislation, with which we are here concerned, the Supreme Court of the United States has on at least two occasions applied territorial or domestic restrictions on the application of otherwise universal language in labor statutes.

*Foley Bros. Inc. v. Filardo* (1949) 336 U.S. 281, 69 S.Ct. 571, 93 L.ed. 680, involved a question of whether the Federal Eight Hour Law, 40 U.S.C. §321-26, applied to work performed for an American construction contractor doing work for the United States government in Iraq and Iran. This particular Act contained universal language of "every laborer" and "any contractor or subcontractor" without limitation to the territorial United States or domestic labor.

In holding the Eight Hour Law was intended by Congress and should be applied by the courts only to situations within the territorial jurisdiction of the United States, the Supreme Court stated:

"No distinction is drawn therein (in the Act)

between laborers who are aliens and those who are citizens of the United States. Unless we were to read such a distinction into the statute we should be forced to conclude, under respondent's reasoning, that Congress intended to regulate the working hours of a citizen of Iran who chanced to be employed on a public work of the United States in that foreign land. Such a conclusion would be logically inescapable although labor conditions in Iran were known to be wholly dissimilar to those in the United States and wholly beyond the control of this nation. *An intention so to regulate labor conditions which are the primary concern of a foreign country should not be attributed to Congress in the absence of a clearly expressed purpose.*"

> *Foley Bros. Inc. v. Filardo,* 336 U.S. 281, 286, 69 S.Ct. 571, 93 L.ed. 680, 684. (Italics added for emphasis)

We submit that the italicized statement in the above quotation from the language of the Supreme Court is especially pertinent to the problems presented in this case.

Articles of employment for crew members on foreign ships are prepared in the light of the economy, customs and standards of their own lands. For example, one maritime nation may consider a large crew employed at a modest wage more desirable than a small crew employed at higher wages. Another maritime nation may regard provision for the wife or family of the ship's officers to be aboard, or the service of alcoholic beverages, as important to the welfare and morale of the crew whereas another nation may consider such provisions to be inappropriate or undesirable.

Similarly, wage scales and conditions of employment are usually adjusted to the nationality of the crew members intended to be employed rather than being attuned to the higher or lower scales and conditions which might be found prevalent in ports of other nations at which such vessels might expect to call. Reversing the geographical situation for illustrative purposes, this Court can well imagine the chaos that would result if American vessels employing American seamen were subjected to picketing at foreign ports because our vessels did not provide the standards of cleanliness required on vessels of some Scandinavian countries, or the same types of rice food or beverage considered essential on merchant vessels operated by some Oriental nations.

It will be recalled that in the testimony of Appellant Willoughby, the Seattle agent for the Defendant-Appellant, Marine Cooks and Stewards, AFL, he stated that he was unable to find anyone aboard the vessel or at Tacoma with whom he could undertake to enter into collective bargaining negotiations (R. 29). No one could reasonably expect a shipowner to provide an officer or representative with authority to enter into collective bargaining at every port of call. Masters of vessels do not ordinarily conduct collective bargaining negotiations and with the responsibilities and administrative duties already imposed upon a master it would be unreasonable to expect a master to assume this additional burden.

With particular reference to international relations, foreign trade and maritime commerce between the

various sovereign nations, the Supreme Court stated in *Lauritzen v. Larsen*:

> "If, to serve some immediate interest, the courts of each were to exploit every such contact to the limit of its power, it is not difficult to see that a multiplicity of conflicting and overlapping burdens would blight international carriage by sea. Hence, courts of this and other commercial nations have generally deferred to a non-national or international maritime law of impressive maturity and universality. * * *
>
> "International or maritime law in such matters as this does not seek uniformity and does not purport to restrict any nation from making and altering its laws to govern its own shipping and territory. * * *
>
> "But in dealing with international commerce we cannot be unmindful of the necessity for mutual forbearance if retaliations are to be avoided; nor should we forget that any contact which we hold sufficient to warrant *application of our law to a foreign transaction will logically be as strong a warrant for a foreign country to apply its law to an American transaction.*"
>
> *Lauritzen v. Larsen,* 345 U.S. 571, 581-2, 73 S.Ct. 921, 97 L.ed. 1254, 1267 (Italics added for emphasis)

The case of *Aetna Freight Lines v. Clayton,* 228 F. (2d) 384 (C.A. 2, 1955), and other cases cited by Appellants in support of their argument that a labor dispute existed in this case are not in point because all of such cases involved *American* employers and controversies over terms and conditions of employment within the United States.

**(1) The Inapplicability of the Norris-LaGuardia Act to a Foreign Dispute Is Clearly Shown by the Supreme Court Decision in the *Benz* Case Involving Similar Language Under the Taft-Hartley Act**

Only last spring the Supreme Court of the United States had occasion to consider whether the Labor Management Relations Act of 1947 (Taft-Hartley Act) 29 U.S.C. §141 was applicable to a foreign shipowner's claim for damages against the members of American unions who engaged in picketing a foreign ship, manned entirely by foreign or alien seamen serving under foreign shipping articles, where the picketing occurred while the vessel was temporarily in a United States port. *Benz v. Compania Naviera Hidalgo, S.A.*, 353 U.S. 138, 77 S.Ct. 699, 1 L.ed.(2d) 709, the case being an outgrowth of the "RIVIERA" litigation before Judge Solomon, discussed earlier in this brief. Mr. Justice Clark, in the majority opinion (7-1, with one Justice not participating) which held that the Taft-Hartley Act was not applicable to a controversy involving a foreign flag vessel, stated:

> "Our study of the Act leaves us convinced that Congress did not fashion it to resolve labor disputes between nationals of other countries operating ships under foreign laws."
>
> *Benz v. Compania Naviera Hidalgo, S.A.* (1957) 1 L.ed.(2d) 709, 713.

Prior decision of this Court is reported at 233 F. (2d) 62 (1956).

The majority opinion of the Supreme Court in *Benz, supra,* emphasized that Congress has carefully and expressly specified those limited instances where adequate

reason has been found to extend application of Federal statutes to foreign vessels and crew members serving thereon. These specific situations are enumerated in the *Benz* decision.

The significance of the *Benz* case is clearly shown by a comparison of the language of the Norris-LaGuardia Act with the Taft-Hartley Act.

Both Acts contain recitals as to the inability of the individual workman to adequately protect his interests in relations with employers and declare a purpose to promote collective bargaining. Compare 29 U.S.C. §102 with 29 U.S.C. §151 (Texts in Appendix D). The definition of labor disputes in the Taft-Hartley Act (29 U.S.C. §152(9)) is identical with that in the Norris-LaGuardia Act (29 U.S.C. §113(c)) except that it includes the phrase, "terms, tenure or conditions of employment" instead of merely "terms or conditions of employment."

Since the purpose of the two acts is the same and the definition of labor dispute is the same, it would certainly seem that if the U. S. Supreme Court found Taft-Hartley is inapplicable to a dispute such as this, as was held in *Benz,* Norris-LaGuardia would likewise be inapplicable.

Although the Norris-LaGuardia Act by its terms makes no reference to foreign commerce, the Taft-Hartley Act is specifically made applicable to commerce "between any foreign country and any State" (29 U.S.C. §152(6)). Despite this express reference to foreign commerce, the Supreme Court in the *Benz* case, *supra,* found that the Taft-Hartley Act was inappli-

cable to a controversy involving labor on a foreign flag vessel calling at a United States port on an international or foreign voyage.

Appellants argue that the Norris-LaGuardia Act is "procedural" while the Taft-Hartley Act is "substantive" (Br. 16). Certainly many of the provisions of the Taft-Hartley Act are not *substantive* but are concerned with the *procedures* set up for collective bargaining. The Norris-LaGuardia Act has been construed to make legal certain actions which were theretofore criminal, in *United States v. Hutchinson* (1940) 312 U.S. 219, 61 S.Ct. 463, 85 L.ed. 788; and to have general substantive effect in *Oregon Shipbuilding Corp. v. N.L.R.B.* (D. Ore., 1943) 49 F.Supp. 386.

**D. Non-Violent Picketing May Be Enjoined Without Notice to Any Public Officer Where There Is No Labor Dispute**

In Sections C and D of their brief Appellants argue that since (in their view) the matters in controversy with respect to the "NIKOLOS" were within the terms of the Norris-LaGuardia Act, the court below should not have granted a temporary injunction because Appellees failed to make necessary showings as to:

(a) Presence of fraud or violence as a condition precedent to injunctive relief under Section 4 of the Act under 29 U.S.C. §104(e). (See Section C of Appellants' Brief (Br. 16-17); and

(b) Inability of public officers adequately to protect property, as required under Section 7(e) of the Act under 29 U.S.C. §107(e). (See Section D of Appellants' Brief (Br. 17-18).

During the proceedings in the court below counsel for Appellants requested the trial court to make specific findings as to each of the above, and this was done (See Findings XXII and XXIII at R. 36). In acceding to counsel's request for these findings the following was stated:

> "MR. VANCE: I was wondering if your Honor would care to make this further finding, then, on the same paragraph, that there has been no fraud or any violence or threat thereof by the defendants? It is my theory that the Court's only power is an injunction under the Norris-LaGuardia Act and under that Section 107(e), is to restrain fraud or violence.
>
> "THE COURT: If you mean in the sense of physical violence, there is no problem about that. I will so find. But whether or no the coasting of a boat back and forth in front of another boat with a sign on it under these particular circumstances comes within the definition of violence in the sense that it prohibits the ship from proceeding, and so on, certainly nobody has been assaulted or anything of that kind, nor even threatened with it, nor has there been any indication that it would happen, and I am certain it wouldn't." (R. 129-30)

As to Appellants' claim with respect to the necessity of a showing of fraud or violence under Section 4, the point need not be developed further since the language of the Act makes it clear that picketing is not protected from injunction, even if no violence is involved or potentially menaced, except where a *"labor dispute"* is involved. 29 U.S.C. §104(e). As already shown, there is no labor dispute in this case within the terms and

proper construction of the Norris-LaGuardia Act. Non-violent picketing was therefore properly enjoined by the court below.

When the Findings were settled during the proceedings below, the learned trial judge himself suggested the Finding:

> "That no public officer, either local, state, or national, is charged with the duty or in fact authorized to provide protection of the character needed here by preventing the activities of the Will-O-Bee in the Harbor." (R. 128)

Slightly modified, this was incorporated as Finding XXII (R. 36). Appellants did not introduce evidence or call the Court's attention to any law to show that there were any such officers or that they were empowered to provide such protection. Appellants took no exception to the finding proposed by the court and they can hardly complain now that the judge did not summon officers he found to be non-existent.

In any event, where there is no "labor dispute" under the Act, the requirements of 29 U.S.C. §107(e) are wholly irrelevant.

**E. International Treaty Commitments of the United States Would Be Violated If Injunctive Relief Was Denied to Appellees**

On August 8, 1938, the United States and Liberia entered into a Treaty of Friendship, Commerce, and Navigation which is still in effect between the two countries. 54 Stat. 1739; TS 956; 201 LNTS 163.

Article VII of this Treaty provides as follows:

> "Between the territories of the High Contract-

ing Parties there shall be freedom of commerce and navigation. The nationals of each of the High Contracting Parties equally with those of the most-favored nation, shall have liberty freely to come with their vessels and cargoes to all places, ports and waters of every kind within the territorial limits of the other which are or may be open to foreign commerce and navigation."

Article XIV of this Treaty provides as follows:

"The merchant or other private vessels and cargoes of one of the High Contracting Parties shall, within the territorial waters and harbors of the other Party in all respects and unconditionally be accorded the same treatment as the vessel and cargoes of that Party, irrespective of the port of departure of the vessel, or the port of destination, and irrespective of the origin or the destination of the cargo. It is especially agreed that no duties of tonnage, harbor, pilotage, lighthouse, quarantine, or other similar or corresponding duties or charges of whatever denomination, levied in the name or for the profit of the Government, public functionaries, private individuals, corporations or establishments of any kind shall be imposed in the ports of the territories or territorial waters of either country upon the vessels of the other, which shall not equally, under the same conditions, be imposed on national vessels."

The arguments advanced by Appellants in this case run directly contrary to the policies to which the government of the United States has become committed by the above Treaty entered into with the Republic of Liberia, under whose flag the "NIKOLOS" was being operated at the time of its call at Tacoma (Finding V, R. 32).

It must be remembered that the owner of a United States flag vessel, picketed as the "NIKOLOS" was here, has remedies not available to Appellees. For example, he can petition the National Labor Relations Board to determine and certify a collective bargaining agent for his employees. 29 U.S.C. §159(c)(1)(B). Once an agent is so certified, it then becomes an unfair labor practice for any other union to picket to secure the right to bargain for the employees. 29 U.S.C. §158(b)(4)(C). But even before the Supreme Court's decision in the *Benz* case, the Board held it had no jurisdiction to hold an election to determine the representative for the crew of a foreign vessel. *Compania Maritima Samsoc Limitada,* Case No. 20-RC-809, May 1, 1950, CCH NLRB Decisions, 1950-1951, ¶ 10,081. Even if Appellees dealt with Appellants and arrived at a collective bargaining agreement they would have no protection from different demands by a different American union at the next United States port at which the "NIKOLOS" called.

To require a foreign shipowner to meet the collective bargaining requirements which are the substantive purpose of the Norris-LaGuardia Act without the aid of the machinery provided by the Labor Management Relations Act would be to deny foreign flag vessels "in all respects and unconditionally * * * the same treatment" as United States flag vessels.

If uniformity on an international level is found desirable, the United States government has the alternative of participating in an international convention covering such subject matter. It has seen fit to do so on

some other aspects of labor standards in maritime commerce and shipping, such as:

> Minimum Age (Seamen) Convention of 1936, 54 Stat. 1705, Treaty Series No. 952;
>
> Officers Competency Certificate Convention of 1936, 54 Stat. 1683, Treaty Series No. 950, incorporated into statute at 46 U.S.C. §224a;
>
> Shipowners' Liability (Sick and Injured Seamen) Convention of 1936, 54 Stat. 1693, Treaty Series No. 951.

Judge Boldt recognized the grave consequences involved in Appellants' attempts to interfere with the internal economy of this foreign vessel when he stated in his decision:

> " * * * in my judgment interference in a United States port with the lawful performance of a lawful contract by a foreign vessel and crew of a friendly foreign power, is conduct which amounts to an unlawful interference with international commerce and with the obligations of the nation under international law and the comity of nations. * * * "
>
> "Now, the point of our case is that because we have international obligations involved here of paramount importance to the welfare and security of the nation, particularly at this critical time in world history, the interference with wholly lawful activities of the commerce of a friendly foreign power are unlawful, and, therefore, regardless of how well founded or grounded the reasons for employing that unlawful conduct, the court has the power and the duty to restrain it." (R. 121, 122)

In an action for injunctive relief under the Norris-LaGuardia Act one court has stated:

> "Courts are more concerned where the public interest is at stake in an effort to safeguard that interest."
>
> *N. Y. Central R. Co. v. Brotherhood Trainmen* (N.D. Ohio 1956) 140 F.Supp. 273, 281.

Immediately following the above quotation in the *N. Y. Central* case, *supra,* the opinion of the court cites and quotes from numerous U. S. Supreme Court decisions in support of the proposition that courts of equity have frequently gone much further to grant injunctive relief where a controversy is likely to have consequences affecting the public interest far beyond the parties involved in the specific case. We submit that the same applies in this case.

## CONCLUSION

In summary, Appellees submit that the entirely foreign and international aspects of the vessel, its crew, and the trade in which it was engaged in the present case, clearly indicate a situation outside of the Norris-LaGuardia Act.

Unless and until the United States government by Treaty, Convention or statute expressly provides for control over such matters as herein involved, broad and universal language in isolated portions of the Act which was obviously intended to promote collective bargaining in domestic labor disputes, should not be held applicable to terms and conditions of employment for alien crew members on a foreign-owned and registered vessel which happens to call occasionally at a United States port.

As otherwise stated by Mr. Justice Clark in the majority opinion in the *Benz* case, *supra*:

> "For us to run interference in such a delicate field of international relations there must be present the *affirmative intention of the Congress clearly expressed.*"
>
> *Benz v. Compania Naviera Hidalgo, S.A.*, 353 U.S. 138, 77 S.Ct. 699, 1 L.ed.(2d) 709, 715, 1957 A.M.C. 900, 906-7. (Italics supplied for emphasis)

For the above reasons, and upon the numerous authorities cited, the decision of the court below granting an interlocutory or temporary injunction *pendente lite* should be affirmed and the case should be returned to the trial court to proceed with a determination of the remaining issues.

Respectfully submitted,

SUMMERS, BUCEY & HOWARD,
CHARLES B. HOWARD,
JOHN D. MOSSER,
*Attorneys for Appellees.*

## APPENDIX A

### EXHIBITS

*Plaintiffs*

| | *Identified* | *Admitted* |
|---|---|---|
| 1—Photograph of Nikolos | R 55 | 56 |
| 2—Photograph of Nikolos | 55 | 56 |
| 3—Greek Collective Bargaining Agreement | 69 | 73 |

## APPENDIX B

### FRIENDSHIP, COMMERCE, AND NAVIGATION

**Treaty Between the United States and Liberia, Signed at Monrovia, August 8, 1938**

* * *

Article VII

Between the territories of the High Contracting Parties there shall be freedom of commerce and navigation. The nationals of each of the High Contracting Parties equally with those of the most-favored nation, shall have liberty freely to come with their vessels and cargoes to all places, ports and waters of every kind within the territorial limits of the other which are or may be open to foreign commerce and navigation.

* * *

Article XIV

The merchant or other private vessels and cargoes of one of the High Contracting Parties shall, within the territorial waters and harbors of the other Party in all respects and unconditionally be accorded the same treatment as the vessel and cargoes of that Party, irrespective of the port of departure of the vessel, or the port of destination, and irrespective of the origin or the destination of the cargo. It is especially agreed that no duties of tonnage, harbor, pilotage, lighthouse, quarantine, or other similar or corresponding duties or charges of whatever denomination, levied in the name or for the profit of the Government, public functionaries, private individuals, corporations or establishments of any kind shall be imposed in the ports of the territories or territorial waters of either country upon the vessels of the other, which shall not equally, under the same conditions, be imposed on national vessels.

* * *

## PPENDIX C

### NORRIS-LaGUARDIA ACT

### 29 U.S.C.A. §102

.02. Public Policy in Labor Matters Declared

In the interpretation of this chapter and in deter-
ining the jurisdiction and authority of the courts of
e United States, as such jurisdiction and authority
re defined and limited in this chapter, the public
olicy of the United States is declared as follows:

Whereas under prevailing economic conditions, de-
eloped with the aid of governmental authority for
wners of property to organize in the corporate and
her forms of ownership association, the individual
norganized worker is commonly helpless to exercise
tual liberty of contract and to protect his freedom
f labor, and thereby to obtain acceptable terms and
nditions of employment, wherefore, though he should
e free to decline to associate with his fellows, it is
ecessary that he have full freedom of association, self-
ganization, and designation of representatives of his
wn choosing, to negotiate the terms and conditions of
s employment, and that he shall be free from the in-
rference, restraint, or coercion of employers of
bor, or their agents, in the designation of such rep-
sentatives or in self-organization or in other con-
rted activities for the purpose of collective bargain-
g or other mutual aid or protection; therefore, the
llowing definitions of and limitations upon the juris-
ction and authority of the courts of the United States
e enacted. Mar. 23, 1932, c. 90, §2, 47 Stat. 70.

### 29 U.S.C.A. §113

13. Definitions of Terms and Words Used in Chapter

When used in this chapter, and for the purposes of
is chapter—

## APPENDIX B

### FRIENDSHIP, COMMERCE, AND NAVIGATION

**Treaty Between the United States and Liberia, Signed at Monrovia, August 8, 1938**

* * *

Article VII

Between the territories of the High Contracting Parties there shall be freedom of commerce and navigation. The nationals of each of the High Contracting Parties equally with those of the most-favored nation, shall have liberty freely to come with their vessels and cargoes to all places, ports and waters of every kind within the territorial limits of the other which are or may be open to foreign commerce and navigation.

* * *

Article XIV

The merchant or other private vessels and cargoes of one of the High Contracting Parties shall, within the territorial waters and harbors of the other Party in all respects and unconditionally be accorded the same treatment as the vessel and cargoes of that Party, irrespective of the port of departure of the vessel, or the port of destination, and irrespective of the origin or the destination of the cargo. It is especially agreed that no duties of tonnage, harbor, pilotage, lighthouse, quarantine, or other similar or corresponding duties or charges of whatever denomination, levied in the name or for the profit of the Government, public functionaries, private individuals, corporations or establishments of any kind shall be imposed in the ports of the territories or territorial waters of either country upon the vessels of the other, which shall not equally, under the same conditions, be imposed on national vessels.

* * *

# APPENDIX C

## NORRIS-LaGUARDIA ACT

### 29 U.S.C.A. §102

102. Public Policy in Labor Matters Declared

In the interpretation of this chapter and in determining the jurisdiction and authority of the courts of the United States, as such jurisdiction and authority are defined and limited in this chapter, the public policy of the United States is declared as follows:

Whereas under prevailing economic conditions, developed with the aid of governmental authority for owners of property to organize in the corporate and other forms of ownership association, the individual unorganized worker is commonly helpless to exercise actual liberty of contract and to protect his freedom of labor, and thereby to obtain acceptable terms and conditions of employment, wherefore, though he should be free to decline to associate with his fellows, it is necessary that he have full freedom of association, self-organization, and designation of representatives of his own choosing, to negotiate the terms and conditions of his employment, and that he shall be free from the interference, restraint, or coercion of employers of labor, or their agents, in the designation of such representatives or in self-organization or in other concerted activities for the purpose of collective bargaining or other mutual aid or protection; therefore, the following definitions of and limitations upon the jurisdiction and authority of the courts of the United States are enacted. Mar. 23, 1932, c. 90, §2, 47 Stat. 70.

### 29 U.S.C.A. §113

113. Definitions of Terms and Words Used in Chapter

When used in this chapter, and for the purposes of this chapter—

(a) A case shall be held to involve or to grow out of a labor dispute when the case involves persons who are engaged in the same industry, trade, craft, or occupation; or have direct or indirect interests therein; or who are employees of the same employer; or who are members of the same or an affiliated organization of employers or employees; whether such dispute is (1) between one or more employers or associations of employers and one or more employees or associations of employees; (2) between one or more employers or associations of employers and one or more employers or associations of employers; or (3) between one or more employees or associations of employees and one or more employees or associations of employees; or when the case involves any conflicting or competing interests in a "labor dispute" (as defined in this section) of "persons participating or interested" therein (as defined in this section).

(b) A person or association shall be held to be a person participating or interested in a labor dispute if relief is sought against him or it, and if he or it is engaged in the same industry, trade, craft, or occupation in which such dispute occurs, or has a direct or indirect interest therein, or is a member, officer, or agent of any association composed in whole or in part of employers or employees engaged in such industry, trade, craft, or occupation.

(c) The term "labor dispute" includes any controversy concerning terms or conditions of employment, or concerning the association or representation of persons in negotiating, fixing, maintaining, changing, or seeking to arrange terms or conditions of employment, regardless of whether or not the disputants stand in the proximate relation of employer and employee.

(d) The term "court of the United States" means

ny court of the United States whose jurisdiction has een or may be conferred or defined or limited by Act f Congress, including the courts of the District of olumbia. Mar. 23, 1932, c. 90, §13, 47 Stat. 73.

## PPENDIX D

### TAFT-HARTLEY ACT

### 29 U.S.C.A. §151

151. Findings and Declaration of Policy

* * *

The inequality of bargaining power between emloyees who do not possess full freedom of association r actual liberty of contract, and employers who are rganized in the corporate or other forms of ownership ssociation substantially burdens and affects the flow f commerce, and tends to aggravate recurrent busiess depressions, by depressing wage rates and the purhasing power of wage earners in industry and by preenting the stablization of competitive wage rates and vorking conditions within and between industries.

Experience has proved that protection by law of the ight of employees to organize and bargain collectively afeguards commerce from injury, impairment, or inerruption, and promotes the flow of commerce by reoving certain recognized sources of industrial strife nd unrest, by encouraging practices fundamental to he friendly adjustment of industrial disputes arising ut of differences as to wages, hours, or other working onditions, and by restoring equality of bargaining ower between employers and employees.

* * *

## APPENDIX E

### OPINION OF DISTRICT COURT

**On Issuance of Injunction, *Compania Naviera Hidalgo S.A. v. Benz, et al*, November 22, 1952**
**(D. Ore. Civil No. 6629)**

SOLOMON, J.

This case is before the Court on plaintiff's motion for a temporary injunction restraining the defendants from picketing the SS RIVIERA. The RIVIERA is owned by plaintiff, a Panamanian corporation; it is registered under the Liberian flag, and all of its crew are foreign nationals, primarily German.

In a prior case brought by plaintiff against the vessel for a possessory libel I found that the activities of the members of the crew in failing to obey the orders of the Master and in remaining on the vessel after they were discharged and ordered off the vessel constituted criminal conduct. I therefore ordered the members of the crew off the vessel. (See my oral opinion dated September 25, 1952, in Civil 6629.)

Later in the case brought by the striking members of the crew against the vessel for wages, penalties and transportation which case was consolidated for trial with the case brought by the plaintiff herein against the members of the crew and the Sailors' Union of the Pacific for damages I found that the members of the crew did not go to strike for any of the reasons alleged in the libel but solely because they wanted to cut down the term of their service from two years, and length of the service agreed upon in their articles, and also to obtain a higher wage rate than that agreed upon in such articles. (See my oral opinion rendered October 22, 1952, in Civil 6652 and Civil 6661.)

Defendants contend that the Norris-LaGuardia Act (29 USCA, Section 101 *et seq.*) deprives this Court of jurisdiction to issue an injunction because this case involves a labor dispute.

It is apparent from the affidavits filed in opposition to the Motion that the picketing and striking action taken by the Sailors' Union of the Pacific and the other defendants is solely for the benefit of the striking crew members of the RIVIERA and is not for the purpose of placing American seamen on the vessel.

It is a well-established rule when seamen sign articles on a vessel for a voyage they work under different conditions from workers on the shore and they must of necessity be governed by different rules with regard to their right to strike. Seamen are wards of the Admiralty, that is, great care has been taken by the United States and other nations to safeguard their rights and protect them from injustice. In view of such paternal attitude, the courts have held that it is not only right and proper but also absolutely necessary that seamen must strictly adhere to their contracts. "When articles are signed by a crew for a voyage all bargaining individual or collective is ended for the duration of the voyage. A contract is made binding both on the owner and the seamen that is lawful, if the articles comply with the statutes, and should be lived up to scrupulously." Rees v. U.S., 95 Federal Second 784, 791, 792. In this case the seamen signed articles which entitled them to the same rights, privileges and working conditions as British seamen. The provisions of the articles are the standard articles used for foreign voyages in Great Britain and were arrived at through collective bargaining. In addition thereto, such articles were approved by the German Labor Office for the German seamen who constitute the majority of the crew at the time they signed the articles in Bremen, Germany.

Therefore they may not now in a foreign port during the period for which they signed on, either themselves or through the Sailors' Union of the Pacific or any other bargaining agent, attempt to reopen the question of wages, hours and working conditions which had previously been agreed upon in the articles which they signed with the vessel.

Defendants also contend that this Court has no jurisdiction because the owners have not exhausted their remedies and must proceed in accordance with the provisions of the Labor Management Relations Act (Taft-Hartley Act) and until they have exhausted their administrative remedies afforded by such act they may not seek relief in the courts. It seems clear to me that the Taft-Hartley Act is concerned solely with the labor relations of American workers between American concerns and their employees in the United States, and it is not intended to, nor does it cover a dispute between a foreign ship and its foreign crew. The National Labor Relations Board has construed the act in the same way. In a petition brought by the Sailors' Union of the Pacific to represent foreign seamen on a ship registered under a foreign flag the National Labor Relations Board dismissed the petition on the ground that the internal economy of a vessel of a foreign registry and ownership was involved. (Compania Maritima Samsok Ltd., Sailors' Union of the Pacific A.F.L.) Case Number 20-RC-809 May 1, 1950.

I am of the opinion, in view of the evidence, that the plaintiff is entitled to the interlocutory injunction.

No. 15637

# United States Court of Appeals

## For the Ninth Circuit

---

IARINE COOKS & STEWARDS, AFL, a voluntary association, JAMES O. WILLOUGHBY, *et al., Appellants*

vs.

PANAMA STEAMSHIP CO. LTD., a corporation, *et al., Appellees*

---

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF WASHINGTON SOUTHERN DIVISION

---

## BRIEF OF APPELLANTS

---

VANCE & PETERSON
J. DUANE VANCE
IVAR H. PETERSON
*Attorneys for Appellants.*

30 Sixth Avenue North,
eattle 9, Washington.

THE ARGUS PRESS, SEATTLE

No. 15637

# United States Court of Appeals

## For the Ninth Circuit

MARINE COOKS & STEWARDS, AFL, a voluntary association, JAMES O. WILLOUGHBY, *et al.*, *Appellants*

vs.

PANAMA STEAMSHIP CO. LTD., a corporation, *et al.*, *Appellees*

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF WASHINGTON SOUTHERN DIVISION

## BRIEF OF APPELLANTS

VANCE & PETERSON
J. DUANE VANCE
IVAR H. PETERSON
*Attorneys for Appellants.*

230 Sixth Avenue North,
Seattle 9, Washington.

THE ARGUS PRESS, SEATTLE

## SUBJECT INDEX



## TABLE OF CASES CITED

**STATUTES AND OTHER AUTHORITIES CITED**

# United States Court of Appeals
## For the Ninth Circuit

| | |
|---|---|
| MARINE COOKS & STEWARDS, AFL, a voluntary association, JAMES O. WILLOUGHBY, *et al.*, *Appellants*, vs. PANAMA STEAMSHIP CO., LTD., a corporation, *et al.*, *Appellees*. | No. 15637 |

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF WASHINGTON SOUTHERN DIVISION

## BRIEF OF APPELLANTS

### JURISDICTION

This is an appeal from an interlocutory injunction ssued by the Honorable George H. Boldt, judge of the United States District Court for the Western District of Washington, Southern Division. The basis upon which jurisdiction of the court below was invoked and asserted is not stated in the pleadings of appellees or n the court's findings, conclusions or order; it is beieved, however, that the District Court based jurisdiction upon 28 U.S.C., Sections 1331 and 1333. (See Findings of Fact XIII and XVIII, R. 34, 35, and Conclusion of Law I, R. 37.)

Jurisdiction of this court to review the order granting a temporary injunction is based upon 28 U.S.C., Sec. 1292 and 29 U.S.C., Sec. 110.

## STATEMENT OF THE CASE

The only question presented on this appeal is the applicability of the Norris-LaGuardia Act, 29 U.S.C., Sec. 101 *et seq.,* to the controversy here involved. More specifically, the issue is whether this is a "case involving or growing out of a labor dispute" within the meaning of that act, and if so, whether the court was thereby deprived of jurisdiction to issue the temporary injunction herein. (The pertinent provisions of the Norris-LaGuardia Act are reproduced in the Appendix to this brief, *infra,* p. 21).

The appellant, Marine Cooks and Stewards Union (hereinafter sometimes referred to as MCS), pursuant to a certification by the National Labor Relations Board, represents employees of the Stewards Department on vessels operated by employer members of the Pacific Maritime Association and the Pacific Shipowners Association which constitute a large majority of the vessels flying the American flag plying the Pacific Ocean in merchant and maritime commerce (R. 24, 25).

The other appellants are James O. Willoughby, the Seattle agent of Appellant MCS, and Virgil Rogers and Willard Richards, members of Appellant MCS (Finding of Fact IV, R. 31-32).

Some time prior to the dispute herein, the Seattle agent of MCS, appellant James O. Willoughby, learned that the S.S. Nikolos, a foreign flag vessel, was about to embark upon a course of coastal shipping between Mexico and the United States, hauling salt (R. 25).

In this operation the S.S. Nikolos pays less than one-fifth (1/5) of the customary and going wage rates in

the Pacific area for American flag vessels (R. 26, 27). Due to the entry of the S.S. NIKOLOS into this commerce with these substandard wage conditions, vessels of American registry and operated and manned under contracts with the defendant union have lost or will lose such business with resultant loss of employment to members of defendant MCS (Finding of Fact XXIV, R. 36, 37). One such vessel under contract to defendant MCS was laid up and its crew discharged at the time of the eruption of this dispute (R. 25, 26).

The S.S. NIKOLOS, a vessel registered under the Liberian flag and owned by appellee Panama Steamship Co. Ltd., a foreign corporation, arrived in the Port of Tacoma on or about June 10, 1957, with a cargo of salt consigned to Hooker Electrochemical Company at Tacoma. The vessel was under sub-charter by appellee Seatankers Inc. from North Atlantic and Gulf Steamship Co. Inc., the primary charterer. Her cargo was loaded at the Port of Black Warrior Lagoon on the Pacific West Coast of Mexico (R. 11, 13-14). Contracts for the future carriage of like cargoes from Mexican to United States ports in the Puget Sound area, by the NIKOLOS or other like vessels of appellees, have been entered into by appellees (R. 35, 124-125). The crew of the NIKOLOS is composed entirely of foreign nationals, whose wages are substantially less than the customary and going rate paid on American flag vessels in the Pacific Coast area (R. 13, 26-27, 113).

After the NIKOLOS anchored in the Port of Tacoma, and for several days thereafter, appellant Willoughby and one or two other MCS members cruised around the

NIKOLOS in Willoughby's boat WILL-O-BEE displaying a "picket boat" sign (R. 27, 57-59). About June 14, a second sign was displayed which stated in substance that AFL-CIO seamen protested the loss of their livelihood to foreign flagships with substandard conditions (R. 60).

Hearing was held in response to an order to show cause issued by the District Court on June 14. Appellants filed a response to the order to show cause and at the hearing contended that because this was a case involving or growing out of a labor dispute, this proceeding was governed by the Norris-LaGuardia Act (29 U.S.C., Sec. 101 *et seq.*) and that no injunction could properly issue because the provisions of that act had not been met.

In its Findings of Fact and Conclusions of Law, the court below found and concluded that the picketing by appellants constituted "unlawful interference with international commerce" (Finding XIII, R. 34), that the court had jurisdiction and was not deprived thereof by the Norris-LaGuardia Act, that no labor dispute was involved (Conclusions I and II, R. 37), and that even if a labor dispute were involved, appellants' "picketing and threats of picketing are unlawful interference with foreign commerce" (Conclusion III, R. 37). The court accordingly, on June 19, 1957, issued its temporary injunction, restraining and enjoining appellants from *inter alia* (1) picketing the S.S. NIKOLOS "or any other vessel registered under a foreign flag and manned by an alien crew and owned, operated or chartered by plaintiffs or any of them that may arrive hereafter in

the Puget Sound area" and (2) picketing "at or near any dock or berth at which S.S. 'NIKOLOS' or other such vessels . . . may be located or at any other place where it is necessary for persons having business with said vessel to pass . . ." (R. 40-42).

Appellees' claim for damages was not tried and is now pending before the District Court.

## SPECIFICATION OF ERRORS

The District Court erred in not finding that this case was one "involving or growing out of a labor dispute" within the meaning of the Norris-LaGuardia Act and that, therefore, it lacked jurisdiction to grant injunctive relief because: (1) the picketing of appellants involved no fraud or violence, and thus under Section 4(e) of said act was not enjoinable; and (2) there was no evidence to support the findings required by Section 7(e) of said act as a condition precedent to the issuance of an injunction, that public officers were unable to furnish adequate protection to appellees' property.

## ARGUMENT

### A. Summary

The controversy in this case, involving peaceful picketing by an American union and its members of a foreign-owned vessel manned by a foreign crew engaged in operations in American coastal waters, in protest against the substandard wages and conditions maintained aboard the vessel, which threaten to undermine the more favorable terms and conditions achieved by the union in collective bargaining with American flag vessels and cause loss of employment to members of the

union, is a case involving or growing out of a labor dispute within the meaning of the Norris-LaGuardia Act. *Lauf v. Shinner,* 303 U.S. 323; *New Negro Alliance v. Sanitary Grocery Co.,* 303 U.S. 552; *Milk Wagon Drivers Union v. Lake Valley Farm Products,* 311 U.S. 91; *Wilson & Co. v. Birl,* 105 F.(2d) 948 (CCA3, 1939). Peacefully patrolling around the appellees' vessel by means of a small cruiser displaying a picket sign protesting the substandard conditions on board the picketed vessel, is conduct that cannot be enjoined in the absence of fraud or violence. 29 U.S.C., Sec. 104(e). There was no fraud or violence associated with the picketing activity here, and the court below so found (Finding XXIII, R. 36).

The finding of fact by the court below, that public officers are unable to protect appellees' property, is without support in the record. As Section 7(e) of the Norris-LaGuardia Act requires evidence and a finding that "public officers charged with the duty to protect complainant's property are unable or unwilling to furnish adequate protection," before an injunction can be issued, the court therefore lacked jurisdiction to issue the injunction.

**B. The Controversy Between the Parties Is a Labor Dispute Within the Meaning of the Norris-LaGuardia Act**

The court below found that there was no "labor dispute" within the meaning of the Norris-LaGuardia Act for the following reasons: (1) because the term as there used "does not contemplate a dispute foreign in nature," and (2) because the evidence did not show the

existence of a "labor dispute" (R. 37). Alternatively, the court found that even if there were a labor dispute the appellants had "no right to interfere in the internal economy of a vessel registered under the flag of a friendly foreign power nor to prevent such vessel from lawfully loading or discharging cargo at ports of the United States" (R. 37-38).

We shall show that the controversy between the parties here is a "labor dispute" within the meaning of the Norris-LaGuardia Act, as disclosed by the evidence, and that the circumstance that a foreign flag vessel is involved does not remove this controversy from the application of the Norris-LaGuardia Act.

Subsection (a) of section 13 of the Norris-LaGuardia Act provides that a case "shall be held to involve or to grow out of a labor dispute when the case involves persons who are engaged in the same industry, trade, craft, or occupation; or have direct or indirect interests therein; . . . or when the case involves any conflicting or competing interests in a 'labor dispute' (as defined in this section) of 'persons participating or interested' therein (as defined in this section)." Subsection (b) characterizes a person or association as participating or interested in a labor dispute "if relief is sought against him or it and if he or it . . . has a direct or indirect interest therein." Subsection (c) defines the term "labor dispute" as including "any controversy concerning terms or conditions of employment . . . regardless of whether or not the disputants stand in the proximate relation of employer or employee."

These definitions, it is submitted, embrace the con-

troversy here and classify it as one arising out of a dispute defined as a labor dispute.

The evidence shows that the controversy between the parties concerns terms and conditions of employment. MCS, the labor organization representing as collective bargaining agent some 5,000 members employed as unlicensed personnel in the steward's department aboard vessels engaged in the Pacific Coast shipping trade (R. 24-25), is vitally interested in the terms and conditions of employment prevailing on any vessel engaged in that trade. MCS believed that the substantially lower wages paid and inferior conditions maintained on foreign-flag vessels in comparison to the wages and conditions prevailing on American ships operating under union contracts presented a real and present threat to the job security of its members. Indeed, the entry of the NIKOLOS into the coastal trade resulted in the crew of the IRA NELSON MORRIS, including members of MCS, being laid off (R. 25-26). It is reasonably to be anticipated that continuation in this trade pursuant to the contracts for future carriage of similar cargo that have been entered into by the NIKOLOS or other vessels of appellees under foreign registry, will further adversely affect employment of MCS members. As the affidavit and testimony of Willoughby make clear (R. 25-26), and as the court found (R. 36-37), the use of foreign-registered vessels in the coastal trade has caused and will cause loss of business by vessels of American registry under contract to MCS, the necessary effect of which has been and will be loss of employment by MCS members.

In sum, the controversy in this case is exclusively concerned with terms and conditions of employment. The picketing of appellants was in protest against the substandard terms and conditions of employment of the crew of the NIKOLOS, which constituted a serious threat to the employment security of MCS members and the continued maintenance of their more favorable wages and conditions of employment. Their objective was to secure adherence to established working conditions by those entering the field. Had the NIKOLOS observed the contractual employment conditions prevailing for vessels in the coastal trade while engaged in that trade, the controversy here would not have arisen. It is solely by reason of the fact that the NIKOLOS maintained conditions inferior to those prevalent in the area that MCS protested and engaged in the picketing activity.

Nor does this dispute fall outside the definition of "labor dispute" because a foreign vessel manned by a foreign crew is involved. There is nothing in the definition of the term "labor dispute" or elsewhere in the Norris-LaGuardia Act that supports the theory that it was to be inapplicable in such circumstances. The controversy is no less one involving terms and conditions of employment because the disputants are of different nationality. In effect, the court below held that its jurisdiction to grant injunctive relief was enlarged because the activity sought to be restrained affected the relationship between a foreign vessel and its foreign crew. But the act recognizes no such criterion for determining jurisdiction. Its definition of "labor dispute" is satisfied if the controversy concerns terms or

conditions of employment, without additional qualification.

The court below referred to the decision of District Judge Solomon in *Benz v. Campania Naviera Hidalgo* (unreported; appeal from interlocutory injunction dismissed as moot and injunctions vacated by this court, 205 F.(2d) 944) as a "quite persuasive" precedent for enjoining appellants' conduct here on the ground no labor dispute was involved (R. 120). While we believe that the trial court in the *Benz* case was in error in ruling that the Norris-LaGuardia Act did not govern that case, there are significant factual differences between the two. In *Benz,* the dispute was between the foreign employer and the foreign crew; the only domestic connection was that the dispute arose while the vessel was transiently in an American port and American unions supported the strike of the crew by picketing. Here, there is no dispute between the foreign employer and the foreign crew; the dispute is solely between the owner and charterer of the vessel, on the one hand, and an American union and its members, on the other. The objective of the picketing action here is confined to protesting and publicizing the effect on the terms and conditions of employment of appellants attributable to the entry of the NIKOLOS and like vessels into the coastal trade, whereas in *Benz* the objective was solely to benefit the striking crew members by altering their contractual relationship with their employer. We submit, therefore, that the facts of this case do not warrant classifying the dispute as one "foreign in nature," even assuming that a dispute of that

character is outside the purview of the Norris-LaGuardia Act.

The legislative history of the act demonstrates that the limitations established in the act were to be applicable to labor disputes involving foreign commerce. In the House, Congressman Beck of Pennsylvania proposed an amendment to Section 1 of the bill which would have made the requirements of the act inapplicable "where a labor dispute involves the obstruction of any instrumentality of interstate or foreign commerce" and would have authorized federal courts in such situations "to grant injunctive relief in the interests of the public in accordance with the principles of equity jurisprudence . . . anything in this act to the contrary notwithstanding." The amendment was defeated, 155 to 63. 75 Cong. Record 5503-5505.

Decisions of the Supreme Court of the United States do not support the narrow and restricted interpretation of the term "labor dispute" adopted by the court below. In *New Negro Alliance v. Sanitary Grocery Co.,* 303 U.S. 552, at 562-3, the Supreme Court said that in the Norris-LaGuardia Act the Congress

> "intended that peaceful and orderly dissemination of information by those defined as persons interested in a labor dispute 'concerning terms and conditions of employment' in an industry or a plant or a place of business should be lawful; that short of fraud, breach of the peace, violence, or conduct otherwise unlawful, those having a direct or indirect interest in such terms and conditions of employment should be at liberty to advertise and disseminate facts and information with respect to

terms and conditions of employment, and peacefully to persuade others to concur in their views respecting an employer's practices."

In that case, an organization of colored persons picketed an employer's establishment protesting the employer's refusal to hire colored clerks. The court answered the contention that this was not a labor dispute because "it did not involve terms and conditions of employment in the sense of wages, hours, unionization or betterment of working conditions," by referring to the definitions in Section 13 of the act and concluded that these definitions "plainly embrace the controversy" involved "and classify it as one arising out of a dispute defined as a labor dispute." *Id.,* p. 560. The later decision in *Columbia River Packers Association v. Hinton,* 315 U.S. 143, does not constitute a limitation on the holding in *New Negro Alliance* for in the *Hinton* case the Supreme Court made clear that in *New Negro Alliance* "the employer-employee relationship was the matrix of the controversy" (*Id.* p. 146) whereas in *Hinton* "a dispute among businessmen over the terms of a contract for the sale of fish" was one "upon which the employer-employee relationship has no bearing." *Id.* pp. 145-6.

*Milk Wagon Drivers' Union v. Lake Valley Farm Products,* 311 U.S. 91, is particularly in point. There, the defendant union of milk wagon drivers picketed retail outlets that obtained their milk from dairies utilizing the so-called "vendor system" of distribution, claiming that the "vendor system" constituted unfair competition, depressed labor standards, and had re-

sulted in less business for dairies employing drivers and loss of employment by drivers. In reversing the Circuit Court of Appeals which had held the activity enjoinable, the Supreme Court said (*Id.* at pp. 98-9):

> "Whether rightly or wrongly, the defendant union believed that the 'vendor system' was a scheme or device utilized for the purpose of escaping the payment of union wages and the assumption of working conditions commensurate with those imposed under union standards. To say . . . that the conflict here is not a good faith labor issue, and that therefore there is no 'labor dispute,' is to ignore the statutory definition of the term; to say, further, that the conditioned abandonment of the vendor system, under the circumstances, was an issue unrelated to labor's efforts to improve working conditions, is to shut one's eyes to the everyday elements of industrial strife."

A situation closely analogous to the one at bar was involved in *Aetna Freight Lines v. Clayton,* 228 F.(2d) 384 (CA 2, 1955), cert. denied 351 U.S. 950. The plaintiff-employer in that case, an interstate carrier of iron and steel products, had lease agreements with owners and operators of motor transportation equipment used in handling the steel products. The defendant union, which was the collective bargaining representative of employees of competing firms, picketed the plaintiff and its customers seeking to force the plaintiff to conform to the area employment conditions. The Court of Appeals for the Second Circuit held that a "labor dispute" within the Norris-LaGuardia Act existed. In disposing of the contention that there was no labor dispute, the court said:

"The Union in this case was attempting to enforce uniform terms and conditions of employment throughout the Buffalo area for drivers and helpers in the steel-hauling business. The Union believed that Aetna's conduct of its business was a threat to the position of the Union throughout the area. Neither the fact that persons working for Aetna may be independent contractors nor the fact that Aetna's dispute was with an organization of persons not its employees would be sufficient to remove this controversy from the broad definition of § 13. There was testimony that defendant union had made agreements both with steel haulers whose drivers were admittedly employees and with companies who operated through the use of lease agreements. Whatever the arrangements of the companies with their drivers, *the efforts of the Union to secure more uniform observance throughout the industry of the working conditions enjoyed by its members was a labor matter; and this controversy arising directly from such effort was a 'labor dispute' within the meaning of the act.*" (Emphasis supplied)

We submit that the instant case, under the plain language of the act and the foregoing decisions interpreting and applying it, is one involving or growing out of a labor dispute.

The recent decision of the Supreme Court in *Benz v. Compania Naviera Hidalgo,* 25 LW 4235, 39 LRRM 2636, does not militate against the applicability of the Norris-LaGuardia Act to the present case. In that case, the Supreme Court held that the Taft-Hartley Act, 29 U.S.C., § 141 *et seq.,* did not apply so as to oust the federal district court of jurisdiction of a foreign ship-

owner's action for damages caused by the picketing of a foreign ship by an American union in support of a strike by the foreign crew. The court reasoned that the Congress did not fashion Taft-Hartley "to resolve labor disputes between nationals of other countries operating ships under foreign laws," and thus concluded that the Taft-Hartley Act had not pre-empted the field.

Because the administrative remedies afforded by that act are not adapted to resolve such a dispute—*i.e.*, one "between nationals of other countries operating ships under foreign laws"—does not suggest that the limitations on the granting of injunctive relief by federal courts are to be ignored when such relief is sought by a foreign shipowner involved in a labor dispute with an American union, which arises in a United States port. Although both statutes deal with the subject of labor relations, there is nothing in either to warrant the conclusion that their applicability to labor disputes is to be tested by identical standards. The Taft-Hartley Act, for example, is not applicable to persons subject to the Railway Labor Act; nor does it reach labor disputes that do not affect commerce. However, the Norris-LaGuardia Act applies to certain disputes that are subject to the Railway Labor Act. See *Brotherhood of Railroad Trainmen v. Toledo, P. & W. R. Co.,* 321 U.S. 50, and *Brotherhood of Railroad Trainmen v. Chicago River R. R.,* 25 LW 4220, 39 LRRM 2578, at note 24. And there is of course no requirement that a labor dispute must affect commerce in order for the Norris-LaGuardia Act to apply. The Taft-Hartley Act provides machinery for the regulation and resolution of certain

labor disputes affecting commerce, particularly those concerned with the right of employees to organize and to bargain collectively through representatives of their own choosing. It also defines as unfair labor practices certain conduct by labor organizations and employers and provides remedies for their prevention. In short the Taft-Hartley Act is a substantive statute regulating labor relations affecting commerce. On the other hand, the Norris-LaGuardia Act is primarily concerned with only one aspect of labor relations: the jurisdiction of federal courts to issue injunctions in cases involving or growing out of labor disputes. Because of these differences in reach and purpose, the application of each statute to a particular controversy must be determined by reference to its own terms and the intent of the Congress in enacting it.

### C. No Fraud or Violence Being Involved, the Picketing Was Not Enjoinable

Appellants were enjoined from engaging in the following activity:

> "Establishing or maintaining or causing to be established or maintained or in any manner encouraging, aiding, or abetting in the operation and use of a picket boat or any other craft or object as an instrumentality of picketing around or near the S.S. "NIKOLOS" or any other vessel registered under a foreign flag and manned by an alien crew and owned, operated or chartered by the plaintiffs or any of them that may arrive hereafter in the Puget Sound area. . . . " (R. 42)

Simply stated, the conduct enjoined is the act of patrolling around the NIKOLOS or any other vessels of appel-

lees. The court found, however, that "There has been no fraud, or physical violence to persons or tangible property or threats thereof by defendants, or any of them" (R. 36).

Section 4 of the Norris-LaGuardia Act enumerates the specific acts not subject to restraining orders or injunctions. Subsection (e) thereof provides that

> "(e). Giving publicity to the existence of, or the facts involved in, any labor dispute, whether by advertising, speaking, patrolling, or by any other method not involving fraud or violence;"

is conduct which may not be prohibited or enjoined.

It is clear that, since the patrolling by appellants was entirely peaceful and did not involve fraud or violence, the District Court was without jurisdiction to enjoin it. See *New Negro Alliance v. Sanitary Grocery Co.,* 303 U.S. 552; *Taxi-Cab Drivers v. Yellow Cab Operating Co.,* 123 F.(2d) 262 (CCA 10, 1941); *Wilson & Co. v. Birl,* 105 F.(2d) 948 (CCA 3, 1939); *Aetna Freight Lines v. Clayton,* 228 F.(2d) 384 (CA 2, 1955), cert. denied, 351 U.S. 950.

**D. The Finding That Public Officers Are Unable Adequately to Protect Appellees' Property Is Not Supported by Evidence**

Section 7(e) of the Norris-LaGuardia Act requires that "due and personal notice" of the hearing preliminary to the issuance of any injunction in a case involving a labor dispute shall be given "to the chief of those public officials of the county and city . . . charged with the duty to protect the complainant's property," and further requires of the court a finding that "the public

officers charged with the duty to protect complainant's property are unable or unwilling to furnish adequate protection." In this case, neither requirement has been met.

There is not a scintilla of evidence that any notice of any kind was given to any law enforcement officers or that they are in fact unable or unwilling to afford protection. The record shows without contradiction that appellants engaged in no violence and made no threats thereof (R. 27). The court so found in Finding of Fact XXIII (R. 36). On its face, the court's finding that public officers "are unable to furnish adequate protection" is unsupported, for the court found that that fact "is shown by the lack of evidence of any action by such authorities" (R. 36). Nor is there any evidence to support the further and contradictory finding (R. 36) that there are no public officers "charged with the responsibility or in fact authorized to protect" the Nikolos from the patrolling activity of appellants (assuming contrary to our contention, that such activity is enjoinable).

We submit that affirmative evidence is necessary to support a finding that public officers are unable to perform their duty. Complete absence of evidence in this regard cannot properly furnish the basis for such a finding. To the contrary, it is to be presumed that public officials will discharge their duty, and a failure to show any action by them does not overcome that presumption, particularly where, as here, the evidence supports the finding made that no physical violence had been committed or threatened.

Inasmuch as the foregoing requirements of Section 7(e) have not been met, the District Court was precluded from issuing the temporary injunction. *Lauf v. Shinner,* 303 U.S. 323; *International Brotherhood of Teamsters v. International Union, etc.,* 106 F.(2d) 871 (C.C.A. 9, 1939); *Green v. Obergfell,* 121 F.(2d) 46 (C.A.D.C., 1941); *Grace Co. v. Williams,* 96 F.(2d) 478 (C.C.A. 8, 1938); *Wilson & Co. v. Birl,* 105 F.(2d) 948 (C.C.A. 3, 1939).

## CONCLUSION

By peacefully picketing the foreign-flag vessel NIKOLOS and displaying a sign protesting the substandard wages and conditions of employment maintained aboard her, MCS here sought to advertise the threat thereby presented to the employment security of its members and the continued maintenance and enjoyment of the more favorable terms and conditions aboard American flag vessels having collective bargaining contracts with MCS. The controversy arose directly out of these efforts of MCS to protect the standards of employment in the Pacific Coast shipping trade. Being directly concerned with terms and conditions of employment, the controversy here is a case involving or growing out of a labor dispute within the meaning of the Norris-LaGuardia Act, and the court below should have so found.

Inasmuch as no fraud or violence was involved or threatened in the MCS picketing and patrolling of the NIKOLOS, the District Court, by the terms of Section 4(e) of the Norris-LaGuardia Act, was without jurisdiction to enjoin it. The court below also erred in granting the injunction in the absence of notice to the chief

of the public officials, or any of them, charged with protection of property, and in finding, without evidence in support thereof, that public officers are unable to furnish adequate protection, as required by Section 7(e) of the act.

For these reasons, the Order of the District Court granting a temporary injunction should be reversed.

Respectfully submitted,

VANCE & PETERSON
J. DUANE VANCE
IVAR H. PETERSON
*Attorneys for Appellants.*

## APPENDIX

### Norris-LaGuardia Act (Title 29, U. S. Code)

Sec. 101:

"No court of the United States, as defined in sections 101-115 of this title, shall have jurisdiction to issue any restraining order or temporary or permanent injunction in a case involving or growing out of a labor dispute, except in a strict conformity with the provisions of such sections; * * * "

Sec. 104:

"No court of the United States shall have jurisdiction to issue any restraining order or temporary or permanent injunction in any case involving or growing out of any labor dispute to prohibit any person or persons participating or interested in such dispute (as these terms are herein defined) from doing, whether singly or in concert, any of the following acts:"

* * * *

"(e) Giving publicity to the existence of, or the facts involved in, any labor dispute, whether by advertising, speaking, patrolling, or by any other method not involving fraud or violence; * * * "

Sec. 107:

"No court of the United States shall have jurisdiction to issue a temporary or permanent injunction in any case involving or growing out of a labor dispute, as defined in sections 101-115 of this title, except after hearing the testimony of witnesses in open court (with opportunity for cross-examination) in support of the allegations of a complaint made under oath, and testimony in opposition thereto, if offered, and except after findings of fact by the court, to the effect—"

* * * *

"(e) That the public officers charged with the duty

to protect complainant's property are unable or unwilling to furnish adequate protection.

"Such hearing shall be held after due and personal notice thereof has been given, in such manner as the court shall direct, to all known persons against whom relief is sought, and also to the chief of those public officials of the county and city within which the unlawful acts have been threatened or committed charged with the duty to protect complainant's property: * * * "

Sec. 113:

"When used in sections 101-115 of this title, and for the purposes of such sections—

"(a) A case shall be held to involve or to grow out of a labor dispute when the case involves persons who are engaged in the same industry, trade, craft, or occupation; or have direct or indirect interests therein; or who are employee of the same employer; or who are members of the same or an affiliated organization of employers or employees; whether such dispute is (1) between one or more employers or associations of employers and one or more employees or associations of employees; (2) between one or more employers or associations of employers and one or more employers or associations of employers; or (3) between one or more employees or associations of employees and one or more employees or associations of employees; or when the case involves any conflicting or competing interests in a 'labor dispute' (as defined in this section) of 'persons participating or interested' therein (as defined in this section).

"(b) A person or association shall be held to be a person participating or interested in a labor dispute if relief is sought against him or it, and if he or it is engaged in the same industry, trade, craft, or occupation in which such dispute occurs, or has a direct or indirect

interest therein, or is a member, officer, or agent of any association composed in whole or in part of employers or employees engaged in such industry, trade, craft, or occupation.

"(c) The term 'labor dispute' includes any controversy concerning terms or conditions of employment, or concerning the association or representation of persons in negotiating, fixing, maintaining, changing, or seeking to arrange terms or conditions of employment, regardless of whether or not the disputants stand in the proximate relation of employer and employee.

"(d) The term 'court of the United States' means any court of the United States whose jurisdiction has been or may be conferred or defined or limited by Act of Congress, including the courts of the District of Columbia."

No. 15637

# United States Court of Appeals

## For the Ninth Circuit

MARINE COOKS & STEWARDS, AFL, a voluntary association, JAMES O. WILLOUGHBY, *et al.*, *Appellants*

vs.

PANAMA STEAMSHIP CO. LTD., a corporation, *et al.*, *Appellees*

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF WASHINGTON SOUTHERN DIVISION

## PETITION FOR REHEARING

J. DUANE VANCE
*Attorney for Appellants.*

JOHN PAUL JENNINGS
*Of Counsel*

230 Sixth Avenue North,
Seattle 9, Washington.

THE ARGUS PRESS, SEATTLE

No. 15637

# United States Court of Appeals

## For the Ninth Circuit

MARINE COOKS & STEWARDS, AFL, a voluntary association, JAMES O. WILLOUGHBY, *et al., Appellants*

vs.

PANAMA STEAMSHIP CO. LTD., a corporation, *et al., Appellees*

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF WASHINGTON SOUTHERN DIVISION

## PETITION FOR REHEARING

J. DUANE VANCE
*Attorney for Appellants.*

JOHN PAUL JENNINGS
*Of Counsel*

230 Sixth Avenue North,
Seattle 9, Washington.

THE ARGUS PRESS, SEATTLE

## INDEX



## TABLE OF CASES

## STATUTES



## CONSTITUTION



## COURT RULES

# United States Court of Appeals

## For the Ninth Circuit

| | |
|---|---|
| MARINE COOKS & STEWARDS, AFL, a voluntary association, JAMES O. WILLOUGHBY, *et al.*, *Appellants*, vs. PANAMA STEAMSHIP CO., LTD., a corporation, *et al.*, *Appellees*. | No. 15637 |

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF WASHINGTON SOUTHERN DIVISION

## PETITION FOR REHEARING

The appellants petition this Honorable Court for rehearing in the above-entitled case.

### A. GROUNDS OF PETITION

The grounds for this petition are as follows:

(1) The decision herein is contrary to the decision of the United States Supreme Court in *Romero v. International Terminal Operating Co.,* 3 L.Ed.2d 368.

Argument heretofore on this point was limited to whether this court ought to concur with the decision of the First Circuit in *Doucette v. Vincent,* 194 F.2d 834. This court's decision proceeds on reasoning not advanced by appellees. As to this, the court's decision and this petition embrace new matters.

(2) The decision erroneously holds that defendants'

conduct in peacefully picketing was unlawful. As the jurisdiction of the district court is predicated exclusively on maritime law, the federal law is the sole measure of the legality of defendants' conduct. Defendants' conduct constituted only peaceful picketing not forbidden by any federal statute or decisional law and protected as free speech under applicable decisions of the United States Supreme Court.

(3) The decision incorrectly holds that the Norris-LaGuardia Act doesn't apply to picketing of a foreign vessel. A federal court sitting in equity is prohibited under the Norris-LaGuardia Act from issuing an injunction and that act makes no exception for foreign owned vessels.

(4) The decision holding the Norris-LaGuardia Act inapplicable fails to mention facts which establish American control of the S.S. Nikolos, the picketed vessel. In the *Benz*[1] case, there was no American connection except that a dispute between the vessel's owners and her crew erupted in an American port. The facts in the present case show that an American owned corporation chartered (that is, rented) the S.S. Nikolos in order to carry out a contract of carriage entered into by another American owned corporation. Other facts relating to American interest and control also appear in the record and are not mentioned in the decision.

## B. ERRATA

The court's statements in paragraphs 2 and 3 of the opinion that the question of the district court's primary jurisdiction was not raised until the second hearing are

---

[1]*Benz v. Compania Naviera Hidalgo, S.A.*, 335 U.S. 138 (1957).

erroneous, and although we do not regard this as grounds for rehearing, we request that the matter be corrected. This matter is covered in Appendix A.

## C. ARGUMENT

### I.

### The Instant Decision Is Contrary to *Romero v. International Terminal Operating Co.*, 3 L.Ed.2d 368.

There are several points on which there is no disagreement. These are:

(1) If there is a cause of action in this case, it is one for a maritime tort. The majority opinion says:

> "* * * Appellees' cause of action is based on interference with maritime traffic on navigable waters and on interference with the performance of a maritime contract constituting maritime torts." (emphasis supplied)

The concurring opinion says:

> "Here the relief sought was injunction *against a maritime tort.*" (emphasis supplied)

(2) Appellees' sole claim to jurisdiction rests upon 28 U.S.C.A. § 1331, giving the United States District Court jurisdiction of all civil actions arising under the Constitution, laws or treaties of the United States. This is acknowledged by the opinion "Appellee rests his claim of jurisdiction on 28 U.S.C.A. § 1331 * * * ."

(3) The United States Supreme Court has held in the *Romero* decision that an action at law cannot be brought under § 1331 on the civil side of the court on a cause of action for maritime tort.

This court now concludes that an action on the civil

side of the court in equity rather than at law based on a maritime tort can be brought under § 1331.

The *Romero* decision, in explicit language, rejects the theory that the jurisdiction of the United States District Court under § 1331 is greater if the action be in equity than if it be at law.

In *Romero,* the remedy asked for a maritime tort was a common law remedy of trial by jury and judgment. In the instant case, the remedy sought is in equity by way of an injunction against a claimed maritime tort.

That the sole ground of distinction by the court between this case and *Romero* is the difference in the remedy sought is made abundantly clear in both the majority and the concurring opinions. In the majority opinion the court says:

> "This is an action for an injunction, and admiralty at no time has had jurisdiction of such actions."

The concurring opinion says:

> "Relief of that character (injunction) is wholly unknown to an admiralty court."

The Supreme Court pointed out clearly, definitely and conclusively in the *Romero* decision that if what was involved was a maritime claim, i.e., a maritime tort, it was a case of admiralty and maritime jurisdiction. The court also specifically pointed out that this was so regardless of the remedy sought by the pleader. This language is to be found in Footnote 23 to the majority opinion in the *Romero* decision.

> "All suits involving maritime claims, *regardless of the remedy sought,* are cases of admiralty and maritime jurisdiction within the meaning of Ar-

> ticle 3 whether they are asserted in the Federal courts or, under the saving clause, in the state courts." (emphasis supplied)

The reasoning of this court is that although there is a "Federal question" because a maritime tort is involved, this is not a "case of admiralty and maritime jurisdiction" as that language is used in §1333 or the Constitution but is instead an action in equity because an injunction is sought. What this reasoning overlooks is that there is no grant of jurisdiction to the United States District Courts over "maritime torts" as such. The only grant of jurisdiction is by the Constitution and §1333 and is limited to "cases of admiralty and maritime jurisdiction." To deny that this case is a "case of admiralty and maritime jurisdiction" is therefore to deny that it falls within any Constitutional grant of judicial authority to the Federal courts.

The majority decision states: "We emphasize, this is not an action 'saved' from the exclusive jurisdiction of admiralty; it is one not cognizable in admiralty." If this be so, the plaintiffs here had no Federal claim at all, for their only claim to Federal jurisdiction is that the case *is* cognizable in admiralty. The Supreme Court made this same observation also in Footnote 23 to the majority opinion in *Romero,* saying:

> "Without that Constitutional grant *Romero* would have no Federal claim to assert."

In *Romero,* the plaintiffs sought a jury trial not available in admiralty and for that reason urged jurisdiction on the law side of the Federal Court where a jury trial would be available. Similarly, plaintiffs in our case seek an injunction not available in admiralty and

base their claim for jurisdiction on the law side solely because only there may the remedy of injunction be given. Jurisdiction is not conferred in such a fashion.

When a litigant sues in the United States District Court and claims jurisdiction of that court under §1331, he must point to the Constitutional provision or law of the United States out of which his case arises. Here appellees and this court both point to the jurisdiction of the district courts over maritime torts. The only jurisdiction over maritime torts is given by Article III, Clause 2 of the Constitution and §1333 of the Judicial Code granting jurisdiction over "cases of admiralty and maritime jurisdiction." In order to remove this case from the restrictions of the *Romero* decision, both the majority and the concurring opinion state that this is not "a case" of admiralty and maritime jurisdiction within the provisions of §1333. In so doing, the court then denies any jurisdiction in the district court whatsoever. For, as pointed out by the Supreme Court in the above-mentioned footnote, without that Constitutional grant to the district courts and without a claim under it, the plaintiff has no Federal claim to assert.

The result here reached by the court is that if the remedy sought on a maritime tort is the equitable remedy of an injunction, the jurisdiction of the district court under §1331 is different and greater than a similar action on the civil side of the court seeking a common law remedy on a maritime tort. Congress made no distinction in §1331 between the jurisdiction of the court sitting in equity or sitting in law. The statute presently grants jurisdiction to the court of "all civil

actions * * *." however, in the original Act of 1875 as quoted by the Supreme Court at page 379 of its decision and as quoted by the majority opinion herein, the Act granted jurisdiction over "suits of a civil nature at common law or in equity." The jurisdictional grant of the statute was identical and equal as to actions in equity and at law. The change to the words "all civil actions" was made solely because of the adoption of Rule 2 of the Federal Rules of Civil Procedure abolishing the distinction between actions at law and in equity. See revisor's notes to 28 USCA §1331.

Congress knows how to give, and in at least one other instance has given, greater jurisdiction to the United States District Courts sitting in equity than it gave to them sitting at law. See the so-called interpleader statute, 28 USCA §1335.

Since the jurisdiction of the court is equal and indistinguishable, whether sitting in law or in equity under §1331, when a litigant applies to the United States District Court for relief claiming jurisdiction under that statute, he must point to that part of the Constitution or those laws or treaties of the United States under which he claims his case arises. In the *Romero* case, the Supreme Court has said that when he claims jurisdiction under §1331 he cannot point to the maritime law because that involves a wholly separate and distinct class of cases not contemplated by §1331.

The result then must necessarily follow that the plaintiffs' claim to jurisdiction under §1331 must fail.

We respectfully submit that the court erred in concluding and holding that the case was one of Federal

maritime law cognizable by the Federal courts, separate and apart from the grant of jurisdiction to those courts of "cases of admiralty and maritime jurisdiction" under the Constitution and Section 1333. Absent diversity a litigant with a claim under maritime law must either claim jurisdiction under that language or there is no Federal jurisdiction at all. Under the grant of jurisdiction by Congress, no distinction has been made between law and equity, and the Supreme Court has said there is none. Hence on this point alone this case should be remanded to the United States District Court for dismissal or for transfer to the admiralty side with a vacation of the injunction, the choice between dismissal and transfer to be at the option of the plaintiffs.

## II.

**The Decision Erroneously Holds That Defendants' Conduct in Peaceful Picketing Was Unlawful Under Substantive Federal Law.**

The court's decision more or less assumes the basic violation of some Federal law by the defendants' peaceful picketing. The only direct reference in the opinion is that this is an interference with the performance of a maritime contract and thus, according to Footnote 3 should be cognizable in admiralty because admiralty takes cognizance of "every species of tort."

While appellants concede that any case of maritime tort is cognizable in admiralty, no case has been cited to the effect that peaceful picketing constitutes a maritime tort nor do appellants know of any such decision.

Insofar as appellants' conduct in peaceful picketing

might otherwise have been deemed to be unlawful under maritime decisional law, such conduct is immunized against any such charge of illegality by virtue of the Constitutional protections of the right of free speech accorded to peaceful picketing and by the Clayton Act, 29 U.S.C.A. §§51, 52, 53.

The right here of the appellants to peacefully picket falls squarely within the Constitutional protection as enunciated in *A. F. of L. v. Swing,* 312 U.S. 568. There the court said:

> "All that we have before us, then, is an instance of 'peaceful persuasion' disentangled from violence and free from picketing 'en masse or otherwise conducted' so as to occasion 'imminent and aggravated danger.' *Thornhill v. Alabama,* 310 U.S. 88, 105."
>
> * * * * * * * *
>
> "The right of free communication cannot therefore be mutilated by denying it to workers, in a dispute with an employer, even though they are not in his employ. Communication by such employees of the facts of a dispute, deemed by them to be relevant to their interests, can no more be barred because of concern for the economic interests against which they are seeking to enlist public opinion than could the utterance protected in Thornhill's case."

Of course, the United States Supreme Court has subsequently stated in cases exemplified by *Building Service Employees International Union v. Gazzam,* 339 U.S. 532, that the right of free speech must be equated with the powers of the states and where picketing, albeit peaceful, violates some overwhelming policy of a state, the state may in a limited degree constitutionally prohibit picketing in violation of that policy.

Here, however, the overwhelming policy of Federal law, upon which appellees rely, legalizes, rather than makes unlawful, the appellants' conduct. The point is made in the next section to follow that the Clayton Act is still the substantive law of the United States and gained new life from the policy declarations of the Norris-LaGuardia Act. That the Clayton Act here makes the appellants' conduct lawful is made abundantly clear by *U. S. v. Hutcheson,* 312 U.S. 219. In Footnote 1 to that opinion, the Supreme Court quotes the statute in full, the last sentence of which, referring to peaceful picketing, reads as follows:

> "****nor shall any of the acts specified in this paragraph be considered or held to be violations of any law of the United States."

The court said at pages 235, 236, of that opinion:

> "The relation of the Norris-LaGuardia Act to the Clayton Act is not that of a tightly drawn amendment to a technically phrased tax provision. The underlying aim of the Norris-LaGuardia Act was to restore the broad purpose which Congress thought it had formulated in the Clayton Act but which was frustrated, so Congress believed, by unduly restrictive judicial construction. This was authoritatively stated by the House Committee on the Judiciary.
>
> " 'The purpose of the bill is to protect the rights of labor in the same manner the Congress intended when it enacted the Clayton Act, October 15, 1914, 38 Stat. L. 738, which act, by reason of its construction and application by the Federal courts, is ineffectual to accomplish the congressional intent.' H. Rep. No. 669, 72d Congress, 1st Session, p. 3. The Norris-LaGuardia Act was a disapproval of

*Duplex Printing Press Co. v. Deering, supra,* and *Bedford Cut Stone Co. v. Journeyman Stone Cutters' Association,* 274 U.S. 37, 47 S.Ct. 522, 71 L.Ed. 916, 54 A.L.R. 791, as the authoritative interpretation of §20 of the Clayton Act, for Congress now placed its own meaning upon that section. The Norris-LaGuardia Act reasserted the original purpose of the Clayton Act by infusing into it the immunized trade union activities as redefined by the later Act. *In this light §20 removes all such allowable conduct from the taint of being 'violations of any law of the United States' including the Sherman Law."* (Emphasis supplied)

The Clayton Act applies to foreign corporations because in its section on definitions it includes them. 29 U.S.C.A. §53, *infra,* p. 9.

## III.

### The Norris-LaGuardia Question

Our third and fourth points will be discussed together. The court rather peremptorily disposes of the Norris-LaGuardia question by reliance upon the *Benz* case. Appellants claim that the *Benz* decision is not applicable in holding or in reasoning, and also is distinguishable on its facts. The substantive law applied in *Benz* was the law of Oregon, with jurisdiction based on diversity. It was claimed this conflicted with the Taft-Hartley Act on the theory that the Taft-Hartley Act was applicable and preempted the field. The holding of the court in that case is no wise applicable to this case where the admiralty law of the United States, and not the law of a state, is conceded to be the governing law and, regardless of the applicability or non-

applicability of the Taft-Hartley Act to the substantive rights of the parties, the question here is whether the Norris-LaGuardia Act provides a limitation on the remedy which a district court may provide in an action based on a claimed maritime tort. This case is also distinguishable from *Benz* on its facts. The Supreme Court in that case said:

> "The only American connection was that the controversy erupted while the ship was transiently in a United States port and American labor unions participated in its picketing."

The record in the trial court, although brief and incomplete, establishes beyond question that here an American corporation, National Bulk Carriers, controlled the operation of the S.S. NIKOLOS and employed it here in an operation basically American.

The appellant union's dispute is with those who control the contract for the carriage of salt between Mexico and Tacoma and thus is a dispute between an American union and an American-owned enterprise. The facts in the record which demonstrate this now follow.

Transea Carriers, which has the contract to haul, while a foreign corporation, is wholly owned by an American steamship company, National Bulk Carriers (Tr. 90). Transea's contract to haul is with another American corporation, the Hooker Electrochemical Company of Tacoma, Washington. Transea in turn has a contract of affreightment with Seatankers, Inc., a plaintiff in this case (Tr. 90), which is likewise a wholly-owned subsidiary of National Bulk Carriers, an American corporation (Tr. 90). Seatankers, Inc., in

turn chartered the vessel NIKOLOS from the North Atlantic and Gulf Steamship Company whose corporate status the witness did not know but which, from its name, is presumably American (Tr. 90). The North Atlantic and Gulf Steamship Company in turn hired the NIKOLOS from the Panama Steamship Company, a foreign corporation. The routine voyage of the vessel under this contract would be primarily in American waters hauling salt from the Black Warrior Lagoon in Mexico, a mere 400 miles south of San Diego up the American coastal waters to the port of Tacoma. Yet in the majority opinion the court said that it could find no greater interest here residing with the American union than in the *Benz* case where a vessel, without any known American relationship, on a truly foreign voyage happened into an American port.

Other facts establish the essentially American background of this dispute and show that the incidental foreign aspects have been overemphasized. The trial court found:

> "As a result of the engagement in this trade by the plaintiffs in vessels of foreign registry, *vessels of American* registry and operated and *manned under contracts with the defendant unions* have lost or will lose such business with resultant *loss of employment to members* of defendant labor organizations." (Findings of Fact XXIV, Tr. 36, 37) (Emphasis supplied)

This finding was based upon the uncontradicted statement in the affidavit of James O. Willoughby reading as follows:

> "The affiant also learned that due to the procuring of said employment by the S.S. NIKOLOS,

the S.S. IRA NELSON MORRIS, a vessel operated by a company affiliated with the Pacific Maritime Association, namely Coast Wise Lines, and under contract to the M.C.S., lost said business and was tied up and rendered inactive in the port of San Francisco and laid off its crew, some of whom were members of M.C.S." (Tr. 25, 26)

In *Benz,* defendant unions argued that the Federal Court had no jurisdiction to award damages on the basis of state law, claiming that the Taft-Hartley Act provided an exclusive remedy. The Supreme Court did not decide in the *Benz* case that the conduct of defendant unions was totally unregulated by the Taft-Hartley Act. The Taft-Hartley Act unquestionably applied to the conduct of defendant unions in the *Benz* case, but the Taft-Hartley remedy was not exclusive. This court bases its conclusion that Norris-LaGuardia does not apply here on its assumption that the Taft-Hartley Act does not apply. This assumption is not justified. The National Labor Relations Board, under somewhat similar circumstances, considered a claim that similar peaceful picketing was unlawful under the Taft-Hartley Act. *Moore Dry Dock Co. and Sailors Union of the Pacific,* 92 NLRB 547. The jurisdiction of the N.L.R.B. was there invoked by an American employer claiming the picketing as a result of a dispute between the American union and a foreign shipowner violated the secondary boycott prohibitions of the Taft-Hartley Act. The Board found that the picketing was not unlawful. The application of other sections of the Taft-Hartley Act to disputes such as this is not free from doubt. *Peninsular and Occidental Steamship Co. v. Seafarers International Union,* 1958 AMC 2145, 42 LRRM 1113,

120 NLRB No. 147. The concurring opinion in *Building Trades Council v. Garmon,* ..... U.S. ....., decided April 20, 1959, suggests that the Taft-Hartley Act may have applicability sufficient to preclude state court injunctions without ousting such courts of power to award damages, although in that particular case the court held both were precluded.

Any person may file a charge with the N.L.R.B. (N.L.R.B. Rules and Regulations, paragraph 1115.09). Certainly the American corporations here involved could invoke the jurisdiction of the N.L.R.B.

Finally, the court, as we have pointed out in detail above, incorrectly assumes that this present dispute is not "concerned with industrial strife between American employers and employees" (353 U.S. at 143). The contrary is true.

Thus, it is seen that the factual basis which impelled the Supreme Court to conclude that the Taft-Hartley Act did not pre-empt applicability of State law in the *Benz* situation does not exist here. The factual situation here is more akin to the cases in which the Taft-Hartley Act has been applied to the rights of the parties.

Wholly apart from this, appellants insist that the reason which impelled the United States Supreme Court to hold that the Taft-Hartley Act was not exclusively applicable in *Benz* to govern the substantive relationships of the parties do not exist to hold that the Norris-LaGuardia ban on injunctions against peaceful picketing should not apply. On the contrary, whereas it is easy to find policy reasons justifying the refusal to

impose substantive law on transactions containing an element of foreign interest, there is no equal policy pertaining to the grant of injunctions and, to the contrary, the overwhelming policy considerations of the Constitutional protections of the right of free speech as applied to labor disputes and the declarations of policy by Congress are overwhelmingly against injunctions in the Federal courts prohibiting peaceful picketing.

The majority opinion expresses concern lest there be "no Federal agency or court in which foreign commerce could seek protection" meaning, by protection, an injunction because no one denies the right of shippers, foreign or otherwise, to bring actions for damages for torts or breach of contract. No law or Constitutional provision establishes a policy that there has to be a Federal agency in which an injunction against peaceful picketing will lie. In fact since 1914 Congress has been striving mightily to persuade, if not direct, the Federal courts to get out of the injunction business in labor relations. Its effort in proclaiming a prohibition against such injunctions in the Clayton Act was held to be a useless exposition of current law in *American Steel Foundries v. Tri-City Central Trades Council,* 257 U.S. 184, 66 L.Ed. 189. In 1932, to avoid this emasculation of Congressional purpose by the courts Congress passed the Norris-LaGuardia Act. *United States v. Hutcheson,* 312 U.S. 219. In doing so it exercised its power, not over commerce, but over the jurisdiction of the district courts to issue injunctions in cases involving labor disputes. It made no exceptions for foreign or interstate commerce.[2]

---

[2] The courts are given only such jurisdiction over foreign or interstate

Co-extensive with this limitation on the jurisdiction of the courts there is in effect a statute of Congress specifically spelling out the jurisdiction of the district courts over Congressional enactments regulating commerce. Title 28, §1337 reads as follows:

> "The district courts shall have original jurisdiction of any civil action or proceeding arising out of any act of Congress regulating commerce * * *."

Thus, Congress had the opportunity not only in the passage of the Norris-LaGuardia Act but in this section also to grant to the United States District Courts special jurisdiction to issue injunctions in cases involving foreigners doing business here. It did not do so.

So also in the National Labor Relations Act, 29 U.S.C.A. §151*ff*, and the Labor Management Relations Act of 1947, 29 U.S.C.A. §151*ff* (sometimes called the

---

commerce as is specified by the Constitution or the laws of Congress. No special Constitutional or statutory grant to general protection of foreign commerce exists. The trial court by repeated reference to commerce with friendly foreign nations apparently thought otherwise. For example, the court said:

> "Now, the point of our case is that because we have international obligations involved here of paramount importance to the welfare and security of the nation, particularly at this critical time in world history, the interference with wholly lawful activities of the commerce of a friendly foreign power are unlawful, and therefore, regardless of how well founded or grounded the reasons for employing that unlawful conduct, the court has the power and the duty to restrain it." (Tr. 122, 123)

The court points to no authority, statutory or decisional, which sustains this statement enlarging the jurisdiction of the district courts. The courts' jurisdiction is not enlarged by the international obligations of the United States except insofar as by statute the district court is given jurisdiction to enforce them and no such statute is pointed to here. Neither is the courts' jurisdiction enlarged, as the trial court thought, because this is a critical time in world history. Nor, of course, does it matter that the commerce is with a friendly or unfriendly foreign power for we are not at war and the war powers or defense powers of the United States are not here relied upon.

Taft-Hartley Act), both of which were comprehensive acts dealing with labor relations, Congress specifically and carefully spelled out the jurisdiction of the district courts to grant injunctions and again did not grant jurisdiction to issue injunctions at the suit of private parties but provided that they could be granted only at the behest of the National Labor Relations Board. In all of the acts mentioned since 1914, both those which were based on Congress' power over the jurisdiction of the courts, *i.e.,* the Clayton Act, the Norris-LaGuardia Act, and §1337 (Title 28 U.S.C.A.) as well as those based on Congress' power to regulate commerce, to-wit, the Clayton Act, the National Labor Relations Act, and the Labor Management Relations Act of 1947 there is no indication that the jurisdiction of the United States District Court to grant an injunction in a labor dispute is any greater if one of the plaintiffs is a foreigner than if all the plaintiffs are American.

The majority opinion states that the denial of an injunction should not result without more explicit direction from Congress. The burden of pleading and proving the jurisdiction of the United States District Court to issue an injunction is on the plaintiff, here the appellee. Not one word in any statute or any decision cited by the appellee has indicated in any way that the jurisdiction of the Federal court to issue an injunction is any greater because a foreigner is a party.

In stating that the Clayton Act was merely expositive of the existing law, the *Tri-City Foundries* case did not invalidate the Clayton Act, but left it as a live declaration of Congressional policy. This declaration is to be construed with and lends body to the Norris-LaGuardia

Act which was intended to overcome the technical, restrictive interpretation of the Clayton Act. That the Clayton Act applies to foreign corporations, as well as domestic, is made specific by the following section of the Act:

> "The word 'person' or 'persons,' wherever used in this act shall be deemed to include corporations and associations existing under or authorized by the laws of either the United States, the laws of any of the territories, the law of any state, *or the laws of any foreign country.*" 29 U.S.C.A. §53 (Emphasis supplied)

Furthermore, the Clayton Act supplements the Norris-LaGuardia Act by including within its provisions relating to peaceful picketing the following language:

> " * * * Nor shall any of the acts specified in this paragraph be considered or held to be violations of any law of the United States." 29 U.S.C.A. §52.

Here, as distinct from *Benz,* the appellees have sought the jurisdiction of the United States District Court, not to enforce the law of some state or foreign country, but for a claimed violation of Federal law. The quoted provisions of the Clayton Act lend substance to the argument that the Norris-LaGuardia Act was not only intended to prohibit injunctions against peaceful picketing by American unions involved in a labor dispute with any person or persons foreign or otherwise, but that even if the procedural requirements of the Norris-LaGuardia Act were met the injunction could not be based upon the ground that any law of the United States was violated.

Since the appellees claim jurisdiction solely under

§1331 on the claim that their case arises under the "laws of the United States" they are squarely confronted with the provision of the Clayton Act that peaceful picketing shall not be considered or held to be a violation of any law of the United States. The Norris-LaGuardia Act was passed to revitalize the prohibition against injunction and, as such, prohibited injunctions which would otherwise be granted under diversity jurisdiction because some non-Federal law is violated but was passed in the light, nonetheless, of the existing declaration of substantive law of the United States that in no event was peaceful picketing to be deemed a violation of any law of the United States claimed applicable in a case brought under §1331.

## IV.

## Conclusion

It is respectfully submitted that the appellants are entitled to a rehearing in the above entitled matter on the grounds set forth in this petition.

Respectfully submitted,

J. Duane Vance
*Attorney for Appellants.*

John Paul Jennings
*Of Counsel*

## APPENDIX A

### THE RAISING OF THE QUESTION OF THE JURISDICTION OF THE DISTRICT COURT.

We here review the manner and method of raising the question of the primary jurisdiction of the District Court.

In appellants' opening brief in this court we pointed out that the plaintiffs below had not made clear the basis on which they sought to invoke the jurisdiction of the court nor had the trial court elucidated or indicated its opinion on its jurisdiction. On page 1 of the appellants' brief we said,

> "The basis upon which jurisdiction of the court below was invoked was not stated in the pleading of appellees or the court's findings, conclusion or order * * *."

Since the burden of pleading and proving the court's jurisdiction rests upon the party invoking that jurisdiction a statement that plaintiff has not done so surely raises the question. The opinion cites cases asserting this rule relating to the burden of establishing jurisdiction.

Appellee's answering brief for the first time brought forth a clear statement of appellees' theory of jurisdiction. Appellees conceded that they were relying on Section 1331 (Title 28 U.S.C.A.). Once this claim was made clear appellants stated in the reply brief, page 1,

> "Appellees have clearly failed to allege and prove the jurisdiction of the district court."

In support thereof at pages 2 and 3 of the reply brief,

we cited the cases of *Jordine v. Walling,* 3 Cir., 185 F.2d 165, and *Modin v. Matson Navigation Co.,* 9 Cir., 128 F.2d 194. As to Section 1331, on which appellee relied, we said:

> "The 'term laws of the United States' as used hereunder, applies only to acts of Congress and not to common law or admiralty decisional law."

Appellees then served and filed a "Supplemental Brief of Appellees" copies of which were served on counsel for appellants before December 14, 1957. This brief of appellee was devoted entirely to the jurisdictional question, appellee relying on and attempting to sustain, the case of *Doucette v. Vincent,* 194 F.2d 834. Thereafter pursuant to permission obtained from the Clerk of the Court on December 27, 1957, the appellants mailed to this court a brief entitled "Appellants' Reply to Supplemental Brief of Appellees." This brief in turn dealt exclusively with the question of jurisdiction under Section 1331 and the "conflicting decisions" of *Doucette v. Vincent* on the one hand, and the *Jordine, Modin* and *Paduano* cases on the other.

All of these documents were filed on or about the date stated and well in advance of the first argument hereon which was held January 15, 1958.

Thus it is established as a matter of record in this court that appellants did not rest their contentions solely on the Norris-LaGuardia Act in the first hearing and failed to raise it until the second hearing as the court has stated. Furthermore, counsel's recollection is that at the first hearing the whole 45 minutes allowed counsel for the appellant was devoted to argument and

questions and answers relating to the jurisdictional question and at the conclusion of the time counsel was granted an additional two minutes to discuss the Norris-LaGuardia question.

## CERTIFICATE OF COUNSEL

I hereby certify that in my judgment the above Petition for Rehearing is well founded and further certify that it is not interposed for delay.

J. Duane Vance

*Attorney for Appellants.*

No. 15638

# United States Court of Appeals

## for the Ninth Circuit

KEMART CORPORATION, a Corporation,
Appellant,

vs.

PRINTING ARTS RESEARCH LABORATORIES, INC., a Corporation, Appellee.

# Transcript of Record

Appeal from the United States District Court for the Southern District of California, Central Division



Phillips & Van Orden Co., 870 Brannan Street, San Francisco, Calif.—9-6-57

No. 15638

# United States Court of Appeals

for the Ninth Circuit

KEMART CORPORATION, a Corporation,
Appellant,

vs.

PRINTING ARTS RESEARCH LABORATORIES, INC., a Corporation, Appellee.

# Transcript of Record

Appeal from the United States District Court for the Southern District of California, Central Division

# INDEX

[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in italic; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in italic the two words between which the omission seems to occur.]

Exhibits for Plaintiff—(Continued):

## NAMES AND ADDRESSES OF ATTORNEYS

For Appellant:

CARL HOPPE,

2610 Russ Building,
San Francisco 4, California.

HENRY GIFFORD HARDY,

410 Mills Building,
San Francisco 4, California.

For Appellee:

JULIEN FRANCIS GOUX,

32 Howard-Canfield Building,
Santa Barbara, California,

LEONARD S. LYON,
LYON & LYON,

811 West Seventh Street,
Los Angeles 17, California.

In the United States District Court, Southern District of California, Central Division

No. 8909-WM—Civil Action

KEMART CORPORATION, a Corporation,
Plaintiff,

vs.

PRINTING ARTS RESEARCH LABORATORIES, INC., a Corporation,
Defendant.

## PETITION FOR A DECLARATORY JUDGMENT

Plaintiff, for its petition, alleges:

1. Plaintiff, Kemart Corporation, is a corporation duly organized and existing under and by virtue of the Laws of the State of California, and is a resident of said State having its principal place of business in the City and County of San Francisco, and State of California.

2. Defendant, Printing Arts Research Laboratories, Inc., is a corporation organized and existing under and by virtue of the Laws of the State of Delaware, which has qualified and is now qualified to do business in the State of California under the laws thereof and has a designated agent for the service of summons and other processes and proceedings in the State of California, in the City of Santa Barbara, registered with the Secretary of State for California, and is now and has been [2]

actually doing business at a regular and established place of business in said City of Santa Barbara.

3. The defendant, Printing Arts Research Laboratories, Inc., alleges itself to be the owner of the entire right, title and interest in and to the following United States Letters Patent.

| Number | Patentee | Date |
|---|---|---|
| 2,191,939 | Marx | February 27, 1940 |
| 2,304,838 | Marx | December 15, 1942 |

4. That an actual controversy exists between plaintiff and defendant in that defendant, Printing Arts Research Laboratories, Inc., has charged plaintiff, Kemart Corporation, with contributory infringement of the Letters Patent listed in Paragraph 3, and is threatening to sue plaintiff's licensees for infringement of said Letters of Patent listed in Paragraph 3 above, by the performance of plaintiff's processes known generally in the trade as the Kemart Process.

5. That this is a suit for Declaratory Judgment under Section 274-D Judicial Code, Title 28 USC 400 and the jurisdiction of this Court arises from the fact that there is diversity of citizenship of the parties hereto and that the value of rights which are here sought to be protected are in excess of $3,000.00, exclusive of interest and costs.

6. That each of said Letters Patent enumerated in Paragraph 3 hereof is invalid and void because the applicant named therein was not the original and first inventor or discoverer of any material or

substantial part of the things patented therein, but the same were known and used by others in this [3] country prior to the alleged invention or discovery set forth therein and were patented and described in printed publication in this and foreign countries before his alleged inventions or discoveries set forth herein or more than two years prior to the application for such patent in each case and were in public use in this country for more than two years prior to such application in each case, said prior patents were printed publications and said instances of prior invention (if there be any inventions disclosed in any of the patents in Paragraph 3 hereof) prior knowledge and use which show the state of the art, being as follows:

United States Patents

| Number | Patentee | Date |
|---|---|---|
| 1,108,849 | Ranck | August 25, 1914 |
| 2,008,290 | Murray | July 16, 1935 |
| 2,108,503 | Murray | February 15, 1938 |
| 2,224,271 | Isler | December 10, 1940 |
| 2,240,945 | Swaysland | May 6, 1941 |
| 2,276,718 | Crosby | March 17, 1942 |

British Patent

| Number | Patentee | Date |
|---|---|---|
| 308,375 | Masa | June 23, 1930 |

7. That each of said Letters Patent enumerated in Paragraph 3 hereof, is invalid and void because none of said patents discloses patentable invention over the state of the art existing at the time of the alleged invention of the things patented thereby.

8. That each of said Letters Patent enumerated in Paragraph 3 hereof, is invalid and void because the claims thereof do not particularly point out and distinctly claim the part, improvement, or combination which is claimed as the invention or discovery. [4]

9. That each of said Letters Patent enumerated in Paragraph 3 hereof is invalid and void because the patentee thereof surreptitiously or unjustly obtained said patents for that which was, it appears, the invention of another who was using reasonable diligence in adapting and perfecting the same.

10. That each of said Letters Patent enumerated in Paragraph 3 hereof, is invalid and void as claiming more than the patentee was justly entitled to, if any.

11. That the invention claimed in said Letters Patent No. 2,191,939 is substantially different from any invention indicated, suggested or described in the original application therefor.

12. Constructions, devices, supplies and methods identical with those said by defendant to infringe the Letters Patent enumerated in Paragraph 3 hereof, were freely manufactured, used, sold and licensed in the United States by plaintiff's predecessors long prior to this present controversy, and defendant well knowing of such manufacture, use, sale and licensing by plaintiff and its predecessors acquiesced therein, causing plaintiff to incur great expense in relying on such acquiescence, wherefore

defendant is estopped in equity from enforcing any right in equity against this plaintiff.

13. That plaintiff's process, known as the Kemart Process, including the devices, material, equipment and supplies used in practicing the process, which the defendant, Printing Arts Research Laboratories, Inc., charges to be infringements of [5] the Letters Patent enumerated in Paragraph 3 hereof, do not individually or collectively infringe any of said patents or any claim thereof.

14. That plaintiff nor any of its licensees, has not done any act or thing and is not proposing to do any act or thing in violation of any right belonging to defendant by virtue of any of said Letters Patent listed in Paragraph 3 hereof.

15. Upon information and belief, plaintiff alleges and states the fact to be, that defendant has circulated letters and statements that plaintiff's process, the Kemart Process, is an infringement of either or both of the Letters Patent enumerated in Paragraph 3 hereof, and that said letters and statements are circulated for the express purpose of harassing plaintiff and its licensees and destroying plaintiff's business; that by reason of such acts and doings of defendant, plaintiff is having great difficulty in doing business with respect to its processes and some prospective licensees having refused and continue to refuse to purchase and deal in plaintiff's processes until such charges and claims are eliminated, and further if a suit for infringement is filed by defendant, plaintiff's licensees will re-

quire plaintiff to furnish an indemnity bond before continuing with licenses under the Kemart Process, causing plaintiff unnecessary and burdensome expense; that plaintiff stands in immediate and grave danger of irreparable loss and damage resulting from said unlawful acts of defendant herein unless this Court shall intervene and protect it in its lawful business. [6]

Wherefore, plaintiff prays:

(a) That the Court enter a Judgment or Decree declaring that it has the right to continue to manufacture, use, sell and license the Kemart Process and the materials, devices, equipment and supplies used to practice the same, without any threats of infringement or any interference whatever by or from defendant or its successors, based upon or arising out of the ownership of said Letters Patent enumerated in Paragraph 3 hereof or any interest therein, or any claim thereof, whether directed to plaintiff or to its agents or licensees.

(b) For a Declaratory Judgment adjudging that each of the patents enumerated in Paragraph 3 hereof, are invalid and void at law and that none of said patents or any claim thereof is infringed by the Kemart Process or any of the devices, materials, equipment or supplies used to practice the same, which are now or were heretofore made, sold or licensed, and offered for license or sale by plaintiff.

(c) For plaintiff's attorney fees in connection with this action.

(d) For plaintiff's costs in this action.

(e) For a preliminary restraining order and permanent injunction enjoining the defendant, its attorneys, agents and those in active concert or participating with it, from in any way threatening suits for infringement against any of plaintiff's licensees or potential licensees, and from in any way asserting that the Kemart Process is an infringement of said patents in suit. [7]

(f) For damages resulting to plaintiff from defendant's wrongful acts and doings.

(g) For such other and further relief as this Court may deem meet and proper.

KEMART CORPORATION,

/s/ By FRANK P. ADAMS,
President.

Duly Verified. [8]

[Endorsed]: Filed November 23, 1948.

---

[Title of District Court and Cause.]

## ANSWER AND COUNTERCLAIM

### Answer

Defendant, Printing Arts Research Laboratories, Inc., answers plaintiff's petition for declaratory judgment as follows:

1.

The allegations of paragraph 1 of the petition are admitted.

2.

The allegations of paragraph 2 of the petition are admitted.

3.

Defendant is the owner of the entire right, title and interest in and to each of the Marx patents Nos. 2,191,939 and 2,304,838. [9]

4.

Defendant admits that an actual controversy exists between plaintiff and defendant with respect to patent No. 2,191,939; and defendant admits that defendant has charged plaintiff with contributory infringement of said patent No. 2,191,939; but except for these admissions defendant denies the allegations of paragraph 4 of the petition.

Further answering paragraph 4 of the petition, defendant specifically denies that any actual controversy exists between plaintiff and defendant with respect to the Marx patent No. 2,304,838; and defendant denies that defendant has ever charged plaintiff with infringement of said patent No. 2,304,838.

Further answering paragraph 4 of the petition, defendant specifically denies that it ever has threatened to sue any of plaintiff's licensees for infringement of either of the said Marx patents Nos. 2,191,939 and 2,304,838.

Further answering said paragraph 4 of the petition, defendant avers that plaintiff has failed to obey the heretofore entered order of the court to

file, as to such paragraph 4, a more definite statement as to

> "(b) When, where, how (i.e., whether orally or in writing) and by whom did defendant charge plaintiff with contributory infringement of Letters Patent No. 2,304,838.
>
> "(c) When, where, how (i.e., whether orally or in writing) and by whom, has defendant threatened to sue plaintiff's licensees for infringement of Letters Patent No. 2,304,838.",

and that in consequence of such disobedience, the plaintiff's [10] petition, or at least so much thereof as relates to the Marx patent No. 2,304,838, should be stricken in accordance with Rule 12(e) of the Rules of Civil Procedure for the United States District Courts; and defendant prays that such order as the Court deems just be entered herein because of such disobedience and in accordance with such rule.

5.

The allegations of paragraph 5 of the petition are admitted.

6.

The allegations of paragraph 6 of the petition are denied.

7.

The allegations of paragraph 7 of the petition are denied.

8.

The allegations of paragraph 8 of the petition are denied.

9.

The allegations of paragraph 9 of the petition are denied.

10.

The allegations of paragraph 10 of the petition are denied.

11.

The allegation of paragraph 11 of the petition is denied. [11]

12.

Defendant, as hereinbefore admitted, has charged plaintiff with contributory infringement of the Marx patent No. 2,191,939; but except for this admission defendant denies the allegations of paragraph 12 of the petition; and defendant specifically denies that it has ever charged any "Constructions" or "devices" or "supplies" to infringe either of its patents mentioned in the petition.

13.

Answering paragraph 13 of the petition, defendant avers that the so-called "Kemart process", as practiced by various strangers to this action, infringes the Marx patent No. 2,191,939; and defendant avers that defendant has no knowledge that any user of the so-called "Kemart process" infringes the Marx patent No. 2,304,838; but except for these averments defendant denies the allegations of paragraph 13 of the petition.

14.

So far as the Marx patent No. 2,191,939 is concerned, defendant denies the allegation of paragraph

14 of the petition; so far as the Marx patent No. 2,304,838 is concerned, defendant states that it is without knowledge or information sufficient to form a belief as to the truth of the averment.

15.

The allegations of paragraph 15 of the petition are denied. [12]

16.

Further answering the petition, defendant avers that same fails to state a claim against defendant upon which relief can be granted.

Counterclaim

(1) On February 27, 1940, United States Letters Patent No. 2,191,939, titled "Photoengraving" were duly and legally issued to defendant; and since that date defendant has been and still is the owner of those Letters Patent.

(2) Plaintiff for some time past has been and still is contributorily infringing those Letters Patent by selling or otherwise vending to infringers of those Letters Patent equipment and supplies and instructions with the purpose and intent that such equipment, supplies and instructions shall be used by the purchasers thereof in practicing without right or license the method or process which the claims of those Letters Patent cover.

Wherefore, defendant demands a preliminary and final injunction against further contributory infringement by plaintiff and those controlled by

plaintiff, an accounting for profits and damages, and an assessment of costs against plaintiff.

/s/ JULIEN FRANCIS GOUX,
Attorney for Defendant.

/s/ ALBERT G. McCALEB,
Of Counsel for Defendant. [13]

Duly Verified. [14]

Affidavit of Service by Mail attached. [15]

[Endorsed]: Filed March 4, 1949.

---

[Title of District Court and Cause.]

## DEFENDANT'S AMENDED AND SUPPLEMENTAL COUNTERCLAIM

1. On February 27, 1940, United States Letters Patent No. 2,191,939, titled "Photoengraving" were duly and legally issued to defendant; and since that date defendant has been and still is the owner of those Letters Patent.

2. Plaintiff for some time past has been and still is (a) directly infringing those Letters Patent, and particularly claims 1, 2, 3, 4, 6, 8, 9, 10, 11 and 12 thereof, by and in the making of halftone negatives that are free of screen pattern in the highlight areas thereof, and (b) contributorily infringing those Letters Patent, and particularly claims 1, 2, [100] 3, 4, 6, 8, 9, 10, 11 and 12 thereof, by selling or otherwise vending to infringers of those Letters Patent equipment and supplies and instructions with the purpose and intent that such equipment,

supplies and instructions shall be used by the purchasers thereof in practicing without right or license the method or process which said claims of those Letters Patent cover.

Wherefore, defendant demands a preliminary and final injunction against further contributory infringement by plaintiff and those controlled by plaintiff, an accounting for profits and damages, and an assessment of costs against plaintiff.

/s/ JULIEN FRANCIS GOUX,
Attorney for Defendant.

/s/ ALBERT G. McCALEB,
Of Counsel for Defendant. [101]

Affidavit of Service by Mail attached. [102]

[Endorsed]: Filed October 24, 1949.

---

[Title of District Court and Cause.]

## PLAINTIFF'S ANSWER TO DEFENDANT'S AMENDED AND SUPPLEMENTAL COUNTERCLAIM

Plaintiff, Kemart Corporation, answers defendant's amended and supplemental counterclaim, as follows:

I.

The allegations of paragraph (1) of the alleged amended and supplemental counterclaim are denied, except that the ownership of Patent No. 2,191,939 by defendant is admitted.

II.

The allegations of paragraph (2) of the alleged amended and supplemental counterclaim are denied.

III.

That said Letters Patent No. 2,191,939 are invalid and void because the applicant named therein was not the [106] original and first inventor or discoverer of any material or substantial parts of the things patented therein, but the same were known and used by others in this country prior to the alleged invention or discovery set forth therein and were patented and described in printed publications in this and foreign countries before his alleged invention or discovery as set forth therein, or more than two years prior to the application for such patent, and was in public use in this country for more than two years prior to such application, said prior patents and printed publications and instances of prior invention, (if there be any invention disclosed in said patent) prior knowledge and use which show the state of the art, being as follows:

United States Patents

| Number | Patentee | Date |
|---|---|---|
| 506,109 | Gerland | Oct. 3, 1893 |
| 1,108,849 | Ranck | Aug. 25, 1914 |
| 2,008,290 | Murray | July 16, 1935 |
| 2,108,503 | Murray | Feb. 15, 1938 |
| 2,224,271 | Isler | Dec. 10, 1940 |
| 2,240,945 | Swaysland | May 6, 1941 |
| 2,276,718 | Crosby | Mar. 17, 1942 |

British Patent

| Number | Patentee | Date |
|---|---|---|
| 308,375 | Masa | June 23, 1930 |

Publications

(a) U. S. Letters Patent No. 506,109, issued October 3, 1893, to F. J. M. Gerland, entitled "Half-Tone Negative for Photo Process."

(b) "Ultra-Violet Photography" published and distributed by General Electric Vapor Lamp Co., Hoboken, New Jersey, June 24, 1936.

(c) "Introduction to Theoretical Physics," Arthur Haas, [107] published by D. Van Nostrand Company, New York, N. Y. 1928. Second Edition, Vol. I, Title page and pages 270 to 273 inclusive.

(d) "Reference Book of Inorganic Chemistry," W. M. Latimer and J. H. Hildebrand, published by the MacMillan Company, New York, N. Y. 1930, Title page and page 360.

(e) "Van Nostrand's Scientific Encyclopedia," published by D. Van Nostrand Company, Inc., New New, N. Y. 1938, Title page, copyright notice, and page 692.

(f) "Modern Inorganic Chemistry," J. W. Mellor, published by Longmans, Green and Co., New York, N. Y. 1930, Title page and page 325.

IV.

That said Letters Patent is invalid and void because it does not disclose a patentable invention over the state of the art existing at the time of the alleged invention of the things patented therein.

V.

That said Letters Patent is invalid and void because the claims thereof do not particularly point out and distinctly claim the parts, improvement, or combination which is claimed as the invention or discovery.

VI.

That said Letters Patent is invalid and void because the Patentee surreptitiously or unjustly obtained said patent for that which was, as it appears, the invention of another.

VII.

That said Letters Patent is invalid and void as [108] claiming more than the Patentee was justly entitled to, if any.

VIII.

Then by reason of the proceedings that were taken in the United States Patent Office in the prosecution of the application for said Letters Patent, the Patentee thereof, his legal representatives or assigns, is estopped from maintaining the same in such scope as to cover or embrace any process or apparatus or product which the defendant may have made, used or sold, or which it is now making, using or selling.

IX.

Constructions, devices, supplies and methods identical with those alleged to be contributorily infringed and the Kemart Process which is likewise alleged to infringe Marx Patent No. 2,191,939 were freely manufactured, used, sold and licensed in the

United States by Plaintiff's predecessors long prior to said counterclaim, all of which was fully known to defendant, and defendant as early as May 4, 1943 sent a Notice of Infringement of the said Marx patent, to plaintiff's predecessors because of such manufacture, use, sale and license as stated above, threatening suit; the plaintiff's predecessors in spite of such notice, denied such infringement and continued such manufacture, use, sale and licensing and has done so continuously since May 4, 1943 up to the time plaintiff was organized; that in spite of this threat by defendant, no suit was filed by defendant against plaintiff or any of its predecessors, or any licensee of them prior to the counterclaim filed herein March 4, 1949; that because of this long delay and apparent acquiescence by defendant and in reliance thereon, plaintiff entered upon the present commercialization of the Kemart Process and has incurred great expense and undertaken fundamental obligations in connection [109] therewith, which it would not have incurred or undertaken had defendant not acquiesced in such manufacture, use, sale and licensing, wherefore defendant is estopped in equity from enforcing any right, against this plaintiff.

Wherefore, plaintiff prays that the alleged amended and supplemental counterclaim be dismissed with prejudice, and with costs and reasonable attorney's fees to plaintiff.

/s/ HENRY GIFFORD HARDY,
Attorney for Plaintiff,
Kemart Corporation.

October 28, 1949.

Certificate of Mailing attached. [110]

[Endorsed]: Filed October 29, 1949.

---

[Title of District Court and Cause.]

## ORDER FOR FINDINGS OF FACT, CONCLUSIONS OF LAW, AND JUDGMENT

There having been a further trial of the issues involving plaintiff's claim for damages for alleged trade libel, and for attorneys' fees, in keeping with the mandate of the Court of Appeals [see Kemart Corporation v. Printing Arts Research Laboratories, Inc., 232 F. 2d 897 (9th Cir. 1956)], and the cause having been again submitted for decision; and it appearing to the court that:

(1) jurisdiction is conferred by 28 U.S.C. §1332;

(2) the conflict-of-laws rules of California are applicable [Erie R. R. v. Tompkins, 304 U.S. 64 78 (1938); see also Klaxon v. Stentor Electric Mfg. Co., 313 U.S. 487 (1941); Griffin v. McCoach, 313 U.S. 498 (1941); American Well Works v. Layne & Bowler Co., 241 U.S. 257 (1916)]; [4]*

(3) under California law, a tort action is governed by the law of the place where the tort was committed [Loranger v. Nadeau, 215 Cal. 362, 10 P. 2d 63, 65 (1932); Wallan v. Rankin, 173 F. 2d 488, 490 (9th Cir. 1949)];

---

* Page numbers appearing at top of page of Original Transcript of Record.

(4) "The legal principles constituting the law of libel or slander are the same whether corporations or individuals are involved." [Maytag Co. v. Meadows Mfg. Co., 45 F. 2d 299, at 302 (7th Cir. 1930), cert. denied, 283 U.S. 843 (1931)];

(5) libelous statements reasonably certain to jeopardize a party's reputation in respect to his business, ability to do business, or methods of doing business, are held in Ohio to be actionable per se [see, e.g. International Text-Book Co. v. Leader Printing Co., 189 Fed. 86 (N. D. Ohio 1910); Cincinnati Street Ry. v. Cincinnati Daily Tribune Co., 1 Ohio Dec. 281 (1900); Watson v. Trask, 6 Ohio 532 (1834); see also Hatchard v. Mege, 18 Q.B.D. 771 (1887)];

(6) since publication of a false charge of patent infringement is likely to prevent others from engaging in business dealings with the alleged infringer, such a publication is a tort under Ohio law in the nature of a trade libel, or unfair competition, and the injured party may recover actual damages, namely, his business losses resulting from the publication and the expenses involved in clearing up the infringement charge [International Industries & Developments, Inc. v. Farbach Chemical Co., ——— F. Supp. ———, 110 U.S.P.Q. 361, 363 [5] (S. D. Ohio 1956); accord: Neville v. Higbie, 130 Cal. App. 607, 20 P. 2d 348 (1933); Hanson v. Hall Mfg. Co., 194 Iowa 1213, 190 N.W. 967 (1922); McGuinnes v. Hargiss, 56 Wash. 162, 105 Pac. 233, 234 (1909); E. Edelmann & Co. v. Triple-A Spe-

cialty Co., 88 F. 2d 852 (7th Cir.), cert. denied, 300 U.S. 680 (1937); Erick Bowman Remedy Co. v. Jensen Salsbery Laboratories, Inc., 17 F. 2d 255, 257-62 (8th Cir. 1926); Restatement, Torts §§ 573 comment g, 624, 647, 773 (1938, 1939); Prosser, Torts § 108, (rev. ed. 1955); Developments in the Law-Defamation, 69 Harv. L. Rev. 875, 878-88 (1956)];

(7) recognizing nonetheless an owner's claim of right to protect his interests from invasion, the law of Ohio accords a patentee the qualified privilege to publish a charge of patent infringement to other interested persons, even though the charge later proves to be false, if the patentee reasonably and in good faith believes the charge to be true and was not prompted by malice, but acted solely in defense of his patent [Henry Gehring Co. v. McCue, 23 Ohio App. 281, 154 N.E. 171, 172 (1926); Oil Conservation Engineering Co. v. Brooks Engineering Co., 52 F. 2d 783, 785-87 (6th Cir. 1931); Alliance Securities Co. v. DeVilbiss Mfg. Co., 41 F. 2d 668, 670-71 (6th Cir. 1930); International Industries & Developments, Inc. v. Farbach Chemical Co., supra, 110 U.S.P.Q. 361; accord: Cal. Civ. Code § 47 (3); Swift & Co. v. Gray, 101 F. 2d 978, 979-80 (9th Cir. 1938); 35 U.S.C. §§ 287, 271(c); see also: Virtue v. Creamery Package Mfg. Co., 123 Minn. 17, 142 N.W. 1136 (1913); Metro-Goldwyn-Mayer Corp. v. Fear, [6] 104 F. 2d 892, 899-900 (9th Cir. 1939); American Ball v. Federal Cartridge Corp., 70 F. 2d 579, 581, 582 (8th Cir. 1934); Asbestos Shingle, Slate & Sheat-

ing Co., v. H. W. Johns-Manville Co., 189 Fed. 611, 613 (S. D. N. Y. 1911); Emack v. Kane, 34 Fed. 46 (N. D. Ill. 1888)];

(8) here defendant believed that the patent covering its process was valid and was being infringed by plaintiff's process, and this belief did not result from careless ascertainment of defendant's patent rights, but was based upon the opinion of experienced, although interested, patent counsel;

(9) defendant's charge of patent infringement, later determined to be false, was published originally in Ohio and subsequently in a trade magazine of nation-wide circulation, in response to plaintiff's publications denying patent infringement, and for the purpose and with the intent on the part of defendant to defend its own patent interests rather than to injure plaintiff's business;

(10) defendant's publications were directed to the same interested persons to whom plaintiff's publications were directed, namely: a consultant to persons in the photo-engraving field; possible infringers and contributory infringers; and the executive secretary of the trade association, having an official interest in conflicts among members;

(11) defendant's out-of-court publications of the false claim of patent infringement were thus made to interested persons without malice, at a [7] time when defendant reasonably and in good faith believed the claim to be true, and so must be held to have been privileged;

(12) where, as at bar, defamatory allegations in pleadings are relevant and material to the claim

or cause of action or defense asserted, such allegations are unqualifiedly privileged [Cal. Civ. Code § 47; Gosewisch v. Doran, 161 Cal. 511, 119 Pac. 656, 657-58 (1911); accord: Buehrer v. Provident Mut. Ins. Co., 123 Ohio St. 264, 175 N.E. 25, 28 (1931)];

(13) defendant may now assert the defense of privilege, even though not expressly pleaded, since, "when issues not raised by the pleadings are tried by express or implied consent of the parties, they shall be treated in all respects as if they had been raised in the pleadings." [Fed. R. Civ. Proc., Rule 15(b); Tillman v. National City Bank, 118 F. 2d 631, 635 (2d Cir. 1941)];

(14) "The court in exceptional [patent] cases may award reasonable attorneys' fees to the prevailing party" [35 U.S.C. § 285];

(15) "exceptional cases" are those in which "unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force, * * * makes it grossly unjust that the winner of the particular law suit be left to bear the burden of his own counsel fees which prevailing litigants normally bear." [Park-in-Theatres, Inc. v. Perkins, 190 F. 2d 137, 142 (9th Cir. 1951)];

(16) the two-day delay on the part of one of the defendant's officers in answering questions upon deposition was not due to bad faith, and moreover did not injure plaintiff;

(17) misrepresentation of the scientific background of one of defendant's witnesses, while to be deplored, cannot be said to have been a matter

of any consequence in the prosecution or defense on the merits;

(18) the state of the prior art was not materially misrepresented by defendant;

(19) the amount of the supersedeas bond and the form of the injunction restraining plaintiff were determined, not by defendant, but by the court; and

(20) inasmuch as defendant's conduct before, during, and after the trial of this case was actuated by a reasonable belief in good faith that plaintiff's process was an infringement of defendant's patented process, attorneys' fees should not be awarded [Merrill v. Builders Ornamental Iron Co., 197 F. 2d 16 (10th Cir. 1952); Park-In-Theatres, Inc. v. Perkins, supra, 190 F. 2d 137; cf: Shingle Product Patents, Inc. v. Gleason, 211 F. 2d 437 (9th Cir. 1954); Russell Box Co. v. Grant Paper Box Co., 203 F. 2d 177, 183 (1st Cir. 1953); E. V. Prentice Co. v. Associated Plywood Mills, Inc., 113 F. Supp. 182, 187-88 (D. Ore. 1953); Algren Watch Findings Co. v. Kalinsky, 91 U.S.P.Q. 369 (S. D. N. Y. 1951), aff'd, 197 F. 2d 69, 72 (2d Cir. 1952); Falkenberg v. Bernard Edward Co., 85 U.S.P.Q. 127 (N. D. Ill. 1950)]; [9]

Findings of fact, conclusions of law and judgment on plaintiff's claims to damages for alleged trade libel, and to an award of attorneys' fees, are Ordered in favor of defendant and against plaintiff, to be settled pursuant to local rule 7, each party to bear its own costs.

It Is Further Ordered that the Clerk this day

forward copies of this order by United States mail to the attorneys for the parties appearing in this cause.

November 5, 1956.

/s/ WM. C. MATHES,
United States District Judge. [10]

[Endorsed]: Filed November 5, 1956.

---

In the United States District Court, Southern District of California, Central Division

No. 8909-WM—Civil

KEMART CORPORATION, a Corporation,
Plaintiff,

vs.

PRINTING ARTS RESEARCH LABORATORIES, INC., a Corporation,
Defendant.

## FINDINGS OF FACT, CONCLUSIONS OF LAW, AND JUDGMENT

There having been a further trial of the issues involving plaintiff's claim for damages and for attorneys' fees, in keeping with the mandate of the Court of Appeals [see Kemart Corporation v. Printing Arts Research Laboratories, Inc., 232 F. 2d 897 (9th Cir. 1956)], the Court having reserved trial of the issue of the amount of damages until after a ruling on the question of liability has been made; the cause having been again submitted for

decision; and it appearing to the Court that findings of fact, conclusions of law and judgment on plaintiff's claims to damages, and to an award of attorneys' fees should be ordered in favor of defendant and against plaintiff, the Court hereby enters the following findings [11] of fact, conclusions of law and judgment:

## Findings of Fact

1-A. Plaintiff, Kemart Corporation, is a California corporation and defendant, Printing Arts Research Laboratories, Inc., is a Delaware corporation.

1-B. The amount in controversy exceeds the sum or value of $3,000.00, exclusive of interest and costs.

1-C. At all times between June of 1947 and the present date, plaintiff and defendant have been competitors with one another in their respective businesses of granting licenses under their respective processes, i.e., the "Kemart Process" of plaintiff and the "Fluorographic Process" of defendant.

1-D. Prior to commencement of the above entitled action, [12] defendant reasonably believed that Marx United States Letters Patent No. 2,191,-939 was valid and that it was infringed by the process of plaintiff.

2. This belief was based upon the opinion of experienced, although interested, patent counsel and not upon careless ascertainment of defendant's patent rights.

3. Prior to commencement of the above entitled action, defendant showed to plaintiff, in Ohio, a letter [Exhibit RR] from defendant's patent counsel charging that plaintiff's process infringed defendant's patent, which charge was later determined to be false.

4. After seeing the aforesaid letter, plaintiff itself published the charge of infringement in Ohio and subsequently caused the charge to be published in a trade magazine of nation-wide circulation wherein the infringement was denied and defendant was accused of wrongful conduct.

5. In response to plaintiff's publication in Ohio, defendant there published the charge of infringement and also published the charge in the aforesaid trade magazine in response to plaintiff's prior publication.

6. The publications by defendant were for the purpose and with the intent on the part of defendant to defend its own patent interests, rather than to injure plaintiff's business.

7. Defendant's publications were directed to the same interested persons to whom plaintiff's publications were directed, namely a consultant to persons in the photo-engraving field; possible infringers and contributory infringers; and the Executive Secretary of the photo-engraving trade association having an official interest in conflicts among members.

8. Defendant's out-of-court publications of the

charge of infringement, since determined to be false, were made at a time when defendant reasonably believed the charge to be true, and were made in good faith and without malice, and were made to interested persons. [13]

9. In pleading to the complaint filed by plaintiff in the above entitled action, defendant alleged that plaintiff's process infringed defendant's patent; such allegation was relevant and material to the cause of action and to the defense asserted by defendant.

10. A two-day delay on the part of one of defendant's officers in answering questions upon deposition was not due to bad faith and did not injure plaintiff.

11. A misrepresentation by defendant's only witness as to his scientific background was a matter of no material consequence either in the prosecution or the defense on the merits of the above entitled action.

12. Defendant did not materially misrepresent the state of the prior art.

13. Defendant did not determine the amount of the supersedeas bond or the form of the injunction restraining plaintiff following the trial; these determinations were made by the Court.

14. The instant case was not an exceptional case and defendant's conduct before, during and after the trial of the case evidenced no unfairness or bad faith; such conduct was actuated by a reason-

able belief in good faith that plaintiff's process was an infringement of defendant's patent.

15. Neither the conduct of the defendant nor any other equitable consideration makes it grossly unjust that the winner of this patent law suit be left to bear the burden of its own counsel fees, which prevailing litigants normally bear.

## Conclusions of Law

1. Jurisdiction of the above entitled case is conferred by 28 U.S.C. § 1332.

2. The conflict-of-laws rules of California are applicable. [14]

3. Under California law, a tort action is governed by the law of the place where the tort is committed.

4. The legal principles constituting the law of libel or slander are the same, whether corporations or individuals are involved.

5. Ohio law provides that publication of a false charge of patent infringement is a tort in the nature of a trade libel or unfair competition, since such charge is likely to prevent others from engaging in business dealings with the alleged infringer, and that the injured party may recover its actual damages.

6. Ohio law recognizes, however, that a patentee may publish a charge of patent infringement to other interested persons, even though the charge later proves to be false, if the patentee reasonably

and in good faith believes the charge of infringement to be true and was not prompted by malice but acted solely in defense of his patent; such a publication is qualifiedly privileged, and defendant's good faith and absence of malice constitutes a complete defense to plaintiff's claim of unfair competition or trade libel.

7. Allegations in pleadings which are relevant and material to the claim or cause of action or defense asserted are unqualifiedly privileged.

8. Issues not raised by the pleadings, but tried by express or implied consent of the parties, shall be treated in all respects as if they had been raised in the pleadings and defendant may now assert the defense of privilege, even though not expressly pleaded.

9. The Court in exceptional patent cases may award reasonable attorney's fees to the prevailing party.

10. Exceptional cases are those in which [15] "unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force, * * * makes it grossly unjust that the winner of the particular law suit be left to bear the burden of his own counsel fees which prevailing litigants normally bear." Park-In-Theatres, Inc. v. Perkins, (9 Cir. 1951), 190 F. 2d 137, at pg. 142.

11. Attorney's fees should not be awarded herein.

Judgment

In accordance with the foregoing Findings of

Fact and Conclusions of Law, it is Ordered, Adjudged and Decreed:

1. That this Court has jurisdiction over plaintiff's claim for damages for unfair competition or trade libel.

2. That plaintiff take nothing by said claim and that said claim be dismissed.

3. That plaintiff receive no award of attorney's fees.

4. That each party shall bear its own costs in respect to proceedings subsequent to the last issued mandate of the Court of Appeals for the Ninth Circuit.

December 19, 1956.

/s/ WM. C. MATHES,
United States District Judge. [16]

Affidavit of Service by Mail attached.

[Endorsed]: Filed December 19, 1956.

---

[Title of District Court and Cause.]

## MOTION TO AMEND FINDINGS OF FACT AND CONCLUSIONS OF LAW, TO MAKE NEW FINDINGS AND CONCLUSIONS AND FOR THE ENTRY OF A NEW JUDGMENT

Plaintiff moves the Court, under Rules 52(b) and 59(a) & (e) of the Federal Rules of Civil Procedure, to amend and to supplement its Findings of Fact, Conclusions of Law and Judgment, heretofore filed, in the following particulars:

I. Change Finding 1-C to Finding 1-D and after Finding 1-B add the following Finding:

1-C. At the time the complaint was filed herein, there was an actual controversy between the parties relating to U. S. Letters Patent No. 2,191,939, for [19] Photoengraving, issued on February 27, 1940 to Walter S. Marx, Jr., Assignor to Printing Arts Research Laboratories, Inc., defendant herein, e.g., whether or not the so-called Kemart process did or did not infringe said Marx patent No. 2,191,939 and whether or not plaintiff did or did not contributorily infringe said Letters Patent.

II. Amend and supplement Findings of Fact Nos. 1-D, 2 to 8, both inclusive, and 10 to 12, both inclusive, to read as follows, and number them accordingly:

Plaintiff's Business:

2. The Kemart process is described in U. S. Letters Patent No. 2,395,985 for Halftone Highlight Process issued on March 5, 1946 to Burtt L. Berry, Assignor to Burtt L. Berry and Lyle P. Youngdahl; in U. S. Letters Patent No. 2,395,986 for Halftone Dropout Process issued on March 5, 1946 to Burtt L. Berry, Assignor to Burtt L. Berry and Lyle P. Youngdahl; in an article entitled "The Kemart Process—What It Is—What It Means to Industry" by Frank P. Adams, published in the Photoengravers Bulletin for July, 1947; in an article entitled "More Business with Kemart" by J. S. Mertle published in the Photo-

engravers Bulletin for January, 1948; and in certain literature in evidence as plaintiff's exhibits 20, 21, 22, 23, 24, 25 and defendant's exhibit E.

3. Plaintiff, since April, 1947, has been, and still is a licensee under said Berry patents, Nos. 2,395,-985 and 2,395,986. [20]

4. Plaintiff, since June, 1947, has been, and still is engaged in the business of granting and renewing and servicing licenses to photoengravers and lithographers throughout the United States under said Berry patents Nos. 2,395,985 and 2,395,986.

5. The licenses which plaintiff has granted to its photoengraver licensees in the course of its business aforesaid have been in accordance with the printed forms E-47-A and PN-49 in evidence as defendant's exhibits A and B. Said licenses provided, among other things, that plaintiff agreed to protect its licensees from all liability by reason of the use of the licensed patents under the license agreements.

Defendant's Business:

6. The "Fluorographic Process" is described in said Marx patent No. 2,191,939 and in certain literature in evidence as plaintiff's exhibits 26 and 27 and defendant's exhibits OO and PP.

7. Defendant, since 1940 has been, and still is, the owner of said Walter S. Marx, Jr., patent No. 2,191,939.

8. Defendant, since 1940 has been, and still is,

engaged in the business of granting and renewing and servicing licenses to photoengravers and lithographers throughout the United States under said Marx patent No. 2,191,939.

Defendant's Original Defamations and Threats:

9. On October 6, 1948, one Albert G. McCaleb, a Chicago, Illinois patent lawyer, prepared a written opinion addressed to defendant, charging [21] plaintiff and plaintiff's process with infringing the Marx patent 2,191,939. Said opinion was received in evidence as defendant's exhibit RR.

10. Said opinion of October 6, 1948 contained the following statements which are false in fact, and which were false in fact when made:

(a) Anyone who practices the Kemart process infringes several claims of your patent aforesaid;

(b) The Kemart Corporation, sponsor of the Kemart process, is contributorily infringing said patent * * * ;

(c) The Kemart process * * * is but a variation of the fluorographic process as disclosed in your subject patent * * * a variation of the fluorographic process which plainly falls within and is covered by a number of the patent claims; and

(d) Even if the Kemart neutralizer were not absorptive of ultra-violet light, the Kemart process would still infringe your herein discussed patent, and more particularly claim 12 thereof * * *.

11. A comparison of the Kemart process with

the process of said Marx patent No. 2,191,939 discloses that the Kemart process involves use of a different kind of copy, a different kind of dot eliminating light, the wholly different phenomenon of fluorescence, and a different kind of photography. These differences go to every feature of the Marx process alleged to be novel. [22]

12. On October 7, 1948 while at the national convention of the American Photoengravers Association, held at the Statler Hotel in Cleveland, Ohio, Walter S. Marx, Jr., in the presence of William J. Pensinger, exhibited said opinion of October 6, 1948 individually to Frank P. Adams; J. S. Mertle; H. B. Latimer; Louis Flader, and Paul Schmidt. He also showed the letter to Mr. Frey.

13. On October 7, 1948, Frank P. Adams discussed the letter of October 6, 1948 with J. S. Mertle at luncheon, but there is no evidence that he ever discussed it with any third party prior to suit.

14. At the time of the preparation and exhibition of said opinion of October 6, 1948 as aforesaid:

(a) Albert G. McCaleb was the president and a director of, as well as patent counsel for defendant;

(b) Walter S. Marx, Jr., was the patentee of the patent in suit, as well as the vice-president in charge of research, the treasurer, a director and the largest stockholder of defendant;

(c) William J. Pensinger was the vice-president in charge of sales efforts and a director of defendant;

(d) Mr. Frey was a salesman for defendant;

(e) Frank P. Adams and J. S. Mertle were respectively president and technical advisor of plaintiff; [23]

(f) Louis Flader was the executive secretary and an ex-Commissioner of the American Photoengravers Association, he was the leading figure in the entire Association, and he was an author of text books in the graphic arts field; and

(g) H. B. Latimer and Paul Schmidt were both representatives of the Harold M. Pitman Company, which was the largest distributor of graphic arts supplies in the world and which was a distributor of Kemart supplies furnished by plaintiff and Fluorographic supplies furnished by defendant.

15. Shortly after the aforementioned convention, Walter S. Marx, Jr., instructed patent counsel for defendant to obtain proof of infringement and other information prerequisite to the filing of a suit for direct infringement against some one representative user of the "Kemart" process.

16. Thereafter, on November 10, 1948, Albert G. McCaleb sent a letter directly to Kemart Corporation repeating verbatim the contents of the October 6, 1948 letter and threatening suit against a representative user of the Kemart process just as soon as certain prerequisite information could be obtained. Said letter is in evidence as plaintiff's exhibit 29.

17. On November 23, 1948 plaintiff commenced the instant action.

18. Immediately after filing the complaint in this action, plaintiff sent to each of its licensees a [24] letter containing plaintiff's response to defendant's charges and referring to the filing of the instant suit. Said letter is in evidence as plaintiff's exhibit 60.

19. Thereafter, plaintiff caused said letter to be published in The Photoengravers Bulletin for December, 1948, as appears from defendant's exhibit NN.

20. None of the statements contained either in said letter (plaintiff's exhibit 60) or in the publication of said letter in The Photoengravers Bulletin (defendant's exhibit NN) was false.

Defendant's Subsequent Defamations in Pleadings and Publications:

21. On March 4, 1949 defendant filed its answer and a counterclaim against plaintiff averring that the so-called "Kemart Process," as practiced by various strangers to this action, infringes the Marx patent No. 2,191,939 and averring further that plaintiff contributorily infringes those letters patent by selling or otherwise vending to infringers of those letters patent equipment and supplies and instructions with the purpose and intent that such equipment, supplies and instructions shall be used by the purchasers thereof in practicing without right or license the method or process which the claims of said Marx patent, No. 2,191,939, cover.

22. During the pendency of this action, defend-

ant caused to be published in The Photoengravers Bulletin for May, 1949, an advertisement and an article in evidence as plaintiff's exhibit 34, said advertisement and article being incorporated in this Finding by reference. [25]

23. The following statements appearing in said advertisement and article are false in fact and were false in fact at the time they were made:

(a) "Kemart licensees liable to lawsuit";

(b) "Any maker of half-tone negatives from wash drawings by the Kemart Process is liable to suit for direct infringement of the Marx patent No. 2,191,939"; and

(c) "* * * our competitor * * * has simulated our patented process * * *."

24. Said advertisement and article also contained the following threats of litigation:

(a) "For the protection of licensees of the Fluorographic Process, and in its own interest, Printing Arts Research Laboratories, Inc., publicly announces its intention to file such a suit as soon as possible"; and

(b) "A suit for direct infringement will be instituted against a Kemart licensee very promptly."

25. Said advertisement admitted that defendant's conduct was at least in part "for the protection of licensees of the fluorographic process." [26]

Plaintiff's Proofs on Malice:

26. In support of its contention that the acts of defendant were malicious, plaintiff proved the following facts:

(a) The charges that plaintiff infringed said Marx patent and the charge that the plaintiff's process infringed the Marx patent were false in fact and in law;

(b) Defendant accompanied its charges of patent infringement by threatening suit against plaintiff and against a representative user or licensee of the Kemart Process;

(c) Plaintiff and defendant were business competitors;

(d) Walter S. Marx, Jr., knew at all times between August 31, 1939 and the date of defendant's publications and the filing of defendant's counterclaim herein that he had cancelled from the patent application leading up to the issuance of the patent in suit his application claim 25 and that the issuance of his patent followed his cancellation of said claim 25. Although the Kemart process was not then in being, said claim 25 would have covered literally the Kemart process and all phases thereof without application of the doctrine of equivalents;

(e) Although defendant had on May 4, 1943 [27] charged with infringement the Glo-Brite Co., a predecessor of plaintiff in the business of licensing under the procedures later described in the Berry patents, defendant did not commence any action to test the question of infringement of the Kemart process for almost six years, e.g., until it filed its counterclaim herein on March 4, 1949;

(f) Although defendant had on October 6, 1948 charged plaintiff with infringement and had again charged the Kemart process with infringement,

defendant did not commence any action against plaintiff to test the question of infringement by plaintiff for almost five months, e.g., until it filed its counterclaim herein on March 4, 1949;

(g) At the time of the publications complained of, Walter S. Marx, Jr., knew of the issuance of the Berry patents Nos. 2,395,985 and 2,395,986;

(h) In issuing said Berry patents Nos. 2,395,-985 and 2,395,986, the Commissioner of Patents, speaking through the Board of Appeals, held specifically that the Kemart copy therein described was not an equivalent of the copy disclosed in said Marx patent No. 2,191,939 and that the Kemart process therein disclosed was not an equivalent of the process disclosed in said Marx patent No. 2,191,939;

(i) At all times up to and including the publication of the October 6, 1948 letter, the filing of the counterclaim herein, and the publication of the [28] May, 1949 advertisement and article in The Photoengravers Bulletin, Walter S. Marx, Jr., the only witness for defendant, had never seen what purported to be Kemart copy and he was of the erroneous belief that Kemart copy reflected ultra-violet light from its highlighted areas, defendant introduced no evidence that any one else associated with defendant had at the time of the publication an accurate understanding of plaintiff's process, and two of defendant's officers and directors had admitted that prerequisite information for filing suit was lacking.

(j) Walter S. Marx, at his deposition on April

2, 1949 preceding the trial, refused to answer certain deposition questions; plaintiff was required to bring a motion under Rule 37 to compel answers; and only then did defendant's counsel stipulate that all questions propounded to Marx would be answered upon the resumption of depositions which took place on May 10 and 11, 1949;

(k) In June of 1950, during the pendency of this litigation, defendant caused another article concerning litigation involving the Kemart process to be published in The Photoengravers Bulletin, reference being made to plaintiff's exhibit 74;

(l) At the trial of the case in October of 1950, defendant offered no evidence whatsoever tending to show that plaintiff "simulated" the defendant's process; defendant offered no evidence tending to show that the process licensed under the Berry [29] patent No. 2,395,985 was an infringement of said Marx patent No. 2,191,939; defendant introduced no evidence whatsoever tending to prove that the steps in the Kemart Process were known equivalents in the particular art here concerned when Marx obtained his patent; defendant offered no evidence to support its contention that ultraviolet reflective and fluorescent photography were known equivalents in the photoengraving art; defendant misrepresented the scientific background of Walter S. Marx, its only witness; and defendant misrepresented the state of the prior art;

(m) In affidavits which defendant filed in this litigation during post trial proceedings, defendant accused that plaintiff's licensor "Burt Berry put

together and concocted his superficial and colorable variation of the Marx process"; defendant accused that an affidavit of Frank P. Adams "is nothing more than a scurrilous attack in keeping with the tactics in general of said Frank P. Adams throughout the course of the above entitled litigation pursued by him in the hope of bludgeoning or coercing Printing Arts Research Laboratories, Inc., and Walter S. Marx into working out some compromise settlement with plaintiff corporation"; defendant admitted that defendant itself "had insisted upon the granting by plaintiff to defendant corporation of a number of extremely valuable rights and privileges" in addition to payment of the sum of $50,000.00 as a condition to the settlement of the litigation; and defendant expressed the view, after defendant's initial victory in the trial court, that "plaintiff were best straightway and without [30] further ado * * * and forthwith forced into bankruptcy" if it could not raise a substantial supersedeas bond; and

(n) After entry of final judgment and the issuance of an injunction against the plaintiff and during the pendency of Appeal No. 12,948, defendant opposed a modification of the injunction so as to permit plaintiff to use a form of light containing substantial quantities of visible light for the purpose of illuminating the subject. [See Appeal No. 13,601.]

Defendant's Proofs in Justification:

27. In alleged justification of its defamations, defendant proved the following facts:

III. Change the numbers of Findings 9 and 13 to subdivisions (a) and (b) under new paragraph No. 27.

IV. Amend and supplement Findings of Fact Nos. 14 and 15 to read as follows and number accordingly:

Fact Conclusions as to Malice and Good Faith:

28. Defendant's conduct before, during and after the trial of the case evidenced that defendant did not have prerequisite information that the plaintiff or the Kemart process infringed the Marx patent in suit at the time that it first published the charges of infringement or at the time it filed its counterclaim herein; defendant never did produce any evidence at the trial that the Kemart process did in fact or in law infringe the Marx patent in suit; and defendant's conduct during and after the trial of this case evidenced ill will toward plaintiff. [31]

29. The conduct of the defendant and the other equitable considerations set forth in these Findings of Fact make it grossly unjust that plaintiff should be left to bear the burden of its own counsel fees, which prevailing litigants normally bear.

30. This case is an exceptional patent case.

V. Amend and supplement Conclusions of Law 1, 5 and 6 to state and number them 1, and 5 to 15, both inclusive, as follows:

1. Jurisdiction of this court is conferred by

Title 28 USC 1332, as well as by Title 28 USC, Sections 1338, 2201 and 2202.

5. The alleged tort here committed is governed by the law of Ohio.

6. Libelous statements reasonably certain to jeopardize a party's reputation in respect to his business, ability to do business, or methods of doing business, including a false charge of patent infringement, are held in Ohio to be actionable per se.

7. The publication of the October 6, 1948 letter at the Cleveland, Ohio, Photoengravers Convention and the publication of the advertisement and article in the May, 1949 issue of The Photoengravers Bulletin were defamatory and libelous per se.

8. Since publication of a false charge of patent infringement is likely to prevent others from [32] engaging in business dealings with the alleged infringer, such a publication is a tort under Ohio law in the nature of a trade libel, or unfair competition, and the injured party may recover actual damages, namely, his business losses resulting from the publication and the expenses involved in clearing up the infringement charge.

9. Where published words actionable per se, including words charging patent infringement, are false, the Ohio law infers malice and where their natural tendency is to injure, the Ohio law presumes damages.

10. Where a plaintiff seeks damages arising from the publication of a charge of patent infringement, under the law of Ohio:

(a) existence of actual malice and absence of good faith on the part of defendant are not essential elements of plaintiff's case;

(b) proof of the truth of the matter charged as defamatory is a complete defense; and

(c) existence of good faith and action upon advice of competent counsel skilled in such matters are not defenses.

11. The law of Ohio does not accord a patentee the qualified privilege to publish a charge of patent infringement if the charge later proves to be false, even if he publishes such charge to other interested persons and even if the patentee reasonably and in good faith believes the charge to be [33] true and was not prompted by actual malice but acted solely in defense of his patent.

12. Under Ohio law, advice of an attorney, known by client to be interested in the subject matter and result, is not a justification for conduct otherwise tortious.

13. The fact that plaintiff in November and December of 1948 published in a letter to its licensees and in a trade journal its response to the initial publication by defendant of defamatory matter in October of 1948 is no defense to the initial publication and is no justification for the publication of further defamatory matter in the same trade journal in May, 1949.

14. The facts proved by defendant in justification of its defamations are not sufficient as a matter of Ohio law to establish the defense of privilege.

15. Defendant's out-of-court publications of the

false claims of patent infringement must be held to have been not privileged.

VI. Change the numbers of Conclusions 7 to 10, both inclusive, to Conclusions 16 to 19, both inclusive.

VII. Amend and supplement Conclusion of Law 11 to state, and number them 20, 21 and 22, as follows:

20. Inasmuch as defendant's conduct before, during and after the trial of this case was exceptional (Finding of Fact 26), reasonable attorneys' fees [34] under the patent statutes should be awarded to plaintiff.

21. Plaintiff is entitled to a judgment for the damages it has sustained by virtue of the publications by defendant of the false charges of patent infringement, namely, its business losses resulting from the publication and the expenses involved in clearing up the infringement charge.

22. This matter should be referred to a special master for an accounting of plaintiff's damages and reasonable attorneys' fees.

VIII. Consistently with the Findings of Fact and Conclusions of Law as so amended and supplemented, amend the Judgment to state that:

1. That this Court has jurisdiction over plaintiff's claim for damages.

2. That the defendant libeled the plaintiff and

libeled the plaintiff's Kemart process in its publication at Cleveland, Ohio, of the Albert G. McCaleb letter of October 6, 1948, and in its publication of an advertisement and article in The Photoengravers Bulletin for May, 1949.

3. That plaintiff is entitled to an award of damages arising from said libels.

4. That the defendant's prosecution of its counterclaim for damages under the patent laws was exceptional and plaintiff is entitled to an award of reasonable attorneys' fees [35] for its defense of such counterclaim.

5. That this cause is hereby referred to ..... ....., a Special Master of this Court, to take proofs and make a report herein respecting an accounting for such damages and for such reasonable attorneys' fees.

6. That plaintiff shall have an award for its costs in respect to proceedings subsequent to the last issued mandate of the Court of Appeals for the Ninth Circuit.

This motion is based upon Rules 52(b), 59(a) and 59(e) of the Federal Rules of Civil Procedure and upon Rule 17 of the local rules of this Court.

In support of this motion plaintiff relies upon the evidence in the case; upon the certified copy of portions of the record and brief filed in the Supreme Court of Ohio in McCue v. Wells, Case No. 21,428 heretofore mailed to the Clerk and served upon opposing counsel; and upon the certi-

fied copy of portions of the record filed in the Court of Appeals for the Seventh Circuit in E. Edelmann & Co. v. Triple-A Specialty Co., No. 5978, also heretofore mailed to the Clerk and served upon opposing counsel.

As grounds for this motion plaintiff shows the Court:

(1) that Findings of Fact 1-D, 2, 4, 5, 6, 7, 8, 10, 11, 12, 14 and 15 entered by this Court (a) are based on insufficient evidence, (b) are contrary to the evidence, and (c) are clearly erroneous both as a matter of fact and as a matter of law; and [36]

(2) that Conclusions of Law 6 and 11 are erroneous as a matter of law, and for lack of evidentiary support.

Insufficiency of Evidence

Insofar as this motion is based upon insufficiency of the evidence to justify the decision, plaintiff specifies the following particulars wherein the evidence is claimed to be insufficient.

I.

Findings 1-D, 2, 6, 8 and 14 and Conclusions of Law 6 and 11 are based either wholly or in part upon the proposition that defendant relied upon the advice of counsel in making its initial publication of the charges of infringement, in filing its counterclaim and in the prosecution of the litigation. Plaintiff specifies that defendant has not made good its justification on such basis for each of the following independent reasons:

(1) The record contains no evidence whatsoever that advice of disinterested counsel was obtained. The record on the contrary discloses that the only opinion obtained was that of the president and a director of the defendant. And the Court found that the counsel was "interested."

(2) The record contains no evidence whatsoever that defendant had made a full disclosure to counsel of prerequisite information necessary to decide the question of infringement. Mr. Marx testified, "I don't recall what I told him about the Kemart process." (Tr. 129). The record further contains admissions of two of defendant's officers (the president-counsel McCaleb and the vice-president in [37] charge of research Marx) that "prerequisite information" was lacking in the Fall of 1948 and admissions of its vice-president in charge of research Marx that he did not even examine any Kemart copy until sometime after the counterclaim was filed herein.

(3) There is no evidence whatsoever that defendant relied upon the opinion. Although Mr. Marx testified that defendant had obtained the opinion (Tr. 111, 112-113), he did not testify that defendant ever relied upon the opinion.

## II.

Findings of Fact 8, 10 and 14 and Conclusion of Law 6 are based either wholly or in part upon alleged absence of malice and existence of good faith. Plaintiff specifies that the evidence is insufficient in the following particulars.

The evidence discloses without contradiction

(1) that the charges of infringement were false;

(2) that they were repeated; and

(3) that defendant's conduct included

(a) elements of ill will directed toward plaintiff,

(b) the giving of false testimony, [38]

(c) the failure to make a factual inquiry concerning the existence of infringement, and

(d) the publication of a known overstatement as to the scope of its patent [e.g., the inclusion of "high-light" white].

Such conduct is not consistent with good will and absence of malice.

If advice of counsel be eliminated as an element of good faith, then there is no evidence whatsoever of good faith in this record sufficient to overcome legal malice from arising the falsity of the charge.

## III.

Findings 4, 5, 6 and 7 in whole or in part are based upon the concept that defendant's publications were made in response to prior publications of plaintiff. This is without any record support.

In the first place, defendant has not shown that its publication at the Cleveland convention was in reference to any act of the plaintiff. At the time that Mr. Marx displayed the letter to Mr. Adams, there was also present Mr. Pensinger. Mr. Marx also displayed the letter to Mr. Frey (Tr. 137).

There is not even a scintilla of evidence that plaintiff ever published the October 6th letter.

Mr. Adams admittedly discussed the letter only with [39] Mr. Mertle, who was plaintiff's technical advisor. Mr. Adams did not admit that he discussed the letter with Messrs. Flader, Latimer or Schmidt.

Mr. Marx testified merely that Messrs. Latimer, Schmidt and Flader approached him. There is no evidence that any of them asked to see the letter of infringement and there is no evidence that any of them had theretofore heard of the letter of infringement. They allegedly heard only that there was a controversy—and even this evidence was hearsay. Even if they had heard of the letter of infringement, the record contains no inference that they heard of it from Mr. Adams. They might have heard of it from Mr. Marx, or they might have heard of it from Mr. Frey, or they might have heard of it from Mr. Pensinger. Defendant did not call anyone to the stand to testify that plaintiff published this letter as found. Mr. Marx has admitted publishing the letter, and his first admission in 1949 (Tr. 76) made no intimation that the publication was preceded or justified by publication by Mr. Adams.

Insofar as the May 1949 publication is sought to be justified by the November and December 1948 publication of plaintiff, there is no evidence to show justification. In the first place, the document on its face does not purport to respond to the November 1948 and December 1948 publications of plaintiff. In the second place, the five-month period of time was so long that the subsequent publication could

not be considered to be a response under any circumstances.

Errors in Law

Insofar as this motion is based upon errors in law occurring at the trial, plaintiff specifies the following particular [40] errors relied upon.

I.

Findings of Fact 1-D, 2, 4, 5, 6, 7, 8, 14 and 15 and Conclusions of Law 6 are based in part upon the defense of privilege. Plaintiff specifies that the Court erred as a matter of law in determining that the law of Ohio accords the defense of privilege to the publication of a false charge of patent infringement.

II.

Findings of Fact 1-D, 2, 8, 14 and Conclusions of Law 6 and 11 base the existence of good faith and absence of malice in part upon an opinion of counsel. Assuming, but not conceding that advice of counsel is a defense, plaintiff specifies that the decision errs as a matter of law (a) in giving effect to an opinion of "interested" counsel; (b) in not requiring proof that defendant made a full factual disclosure to counsel; and (c) in not requiring proof that defendant did in fact rely upon the advice.

III.

Findings of Fact 11 and 12 justify the misrepresentations of the scientific qualifications of defendant's only witness at the trial and the misrepre-

sentation of the state of the prior art on the ground that the misrepresentations were immaterial. Plaintiff specifies that this is error as a matter of law.

IV.

The District Court failed to find and weigh all of the [41] facts set forth in plaintiff's proposed Findings of Fact above. Plaintiff specifies that this is error as a matter of law.

V.

The District Court failed to enter Conclusions of Law as set forth in plaintiff's proposed Conclusions of Law above. Plaintiff specifies that this is error as a matter of law.

This motion is accompanied by a Memorandum of Points and Authorities as required by Rule 3(d) of the Rules of this Court.

/s/ HENRY GIFFORD HARDY,
/s/ CARL HOPPE,
Attorneys for Plaintiff.

[Endorsed]: Filed Jan. 2, 1957

United States District Court, Southern District of California, Central Division

No. 8909-WM—Civil

KEMART CORPORATION, Plaintiff,

v.

PRINTING ARTS RESEARCH LABORATORIES, INC., Defendant.

ORDER ON PLAINTIFF'S MOTION TO AMEND FINDINGS OF FACT, Etc.

This cause having come before the Court upon plaintiff's motion, filed January 2, 1957, "to amend findings of fact and conclusions of law, to make new findings and conclusions and for the entry of a new judgment"; and the motion having been ordered submitted for decision;

It Is Now Ordered that plaintiff's motion is hereby denied.

It Is Further Ordered that the Clerk this day forward copies of this Order by United States mail to the attorneys for the parties appearing in this cause.

January 4, 1957.

/s/ WM. C. MATHES,
United States District Judge. [52]

[Endorsed]: Filed Jan. 4, 1957.

[Title of District Court and Cause.]

## NOTICE OF APPEAL

Notice is hereby given that plaintiff, Kemart Corporation, hereby appeals to the United States Court of Appeals for the Ninth Circuit

a. from the final judgment entered in this action on December 20, 1956; and

b. from the order filed in this action on January 4, 1957 denying plaintiff's motion, filed January 2, 1957, to amend findings of fact and conclusions of law, to make new findings and conclusions and for the entry of a new judgment.

/s/ HENRY GIFFORD HARDY,
/s/ CARL HOPPE,
Attorneys for Appellant. [53]

[Endorsed]: Filed Jan. 21, 1957.

---

[Title of District Court and Cause.]

## MOTION

Plaintiff moves the Court to vacate and to set aside the final judgment entered against plaintiff in this cause on December 20, 1956, pursuant to the provisions of Rule 60(b) of the Federal Rules of Civil Procedure.

This motion is based upon the following alternative grounds:

(1) The rule of decision upon which the judg-

ment is based, as set forth in Conclusion of Law No. 6 and in paragraph numbered (7) of the Order for Findings of Fact, Conclusions of Law and Judgment, was overruled, limited or otherwise vacated in International Industries and Developments, Inc. v. Farbach Chemical Company, Inc., decided by [64] the United States Court of Appeals for the Sixth Circuit on February 21, 1957, not yet reported officially, but unofficially reported in 112 P.Q. 349.

(2) The rule of decision upon which the judgment is based, as set forth in Conclusion of Law No. 6 and paragraph numbered (7) of the Order for Findings of Fact, Conclusions of Law and Judgment, contravenes the Convention of the Union of Paris of March 20, 1883 for the Protection of Industrial Property, as amended in London in 1934 (53 Stat. 1780), particularly Article 10 Bis thereof, which particularly forbids "false allegations in the conduct of trade of a nature to discredit the establishment, the goods or the services of a competitor."

This motion is supported by the accompanying affidavits of Carl Hoppe and Henry Gifford Hardy and by Exhibits "A" and "B" attached to said affidavit of Carl Hoppe.

/s/ HENRY GIFFORD HARDY,
/s/ CARL HOPPE,
Attorneys for Plaintiff. [65]

[Endorsed]: Filed April 9, 1957.

[Title of District Court and Cause.]

## AFFIDAVIT OF CARL HOPPE

State of California
City & County of San Francisco—ss.

Carl Hoppe, being first duly sworn, deposes and says:

1. Affiant is one of the attorneys for plaintiff in the above-entitled matter.

2. The final judgment of this Court which is the subject of the accompanying Motion was entered on December 20, 1956; a Motion to Amend Findings of Fact and Conclusions of Law, to Make New Findings and Conclusions and for the Entry of a New Judgment [66] was denied by this Court on January 2, 1957; the plaintiff filed a Notice of Appeal from said judgments on January 21, 1957; and thereafter the Court of Appeals for the Sixth Circuit, on February 21, 1957, handed down a decision in the case of International Industries and Developments, Inc. v. Farbach Chemical Company, Inc., 112 P.Q. 349, not yet officially reported, in which the majority of the Court held actionable a notice of infringement which was issued in implied malice in law and held that actual malice and bad faith constituting unfair competition are not essential elements to an actionable cause of action.

3. Said decision of the Court of Appeals was not available to the plaintiff prior to February 21, 1957, the date of decision.

4. In preparation for said appeal, affiant expanded his legal research on behalf of plaintiff beyond the source materials investigated theretofore, and during the course of his investigation observed for the first time, on January 29, 1957, that the rule of decision in this case might be controlled by the Convention of the Union of Paris for the Protection of Industrial Property, as amended at The Hague and as amended at London (53 Stats. 1780).

5. Thereafter affiant examined the official Actes de la Conference Reunie a la Haye due 8 Octobre au 6 Novembre 1925 and obtained a copy of the title page and page 477 thereof, said page being attached to this Affidavit as Exhibit "A" hereof.

6. Exhibit "B" attached to this Affidavit is a translation of a portion of page 477 of said Exhibit "A."

Further affiant sayeth not.

/s/ CARL HOPPE. [67]

Notary Certification Attached. [68]

EXHIBIT "B"

"2. Disparagement

"The proposition of inserting in article 10 a disposition aimed at the repression of disparagement has been approved by all the delegations. In effect, the act of formulating or spreading affirmations and allegations (that are) false and of a nature to carry damage to the reputation of a competitor or of his establishment or of his merchandise is every-

where considered as contrary to honest usage, and incompatible with the good order of trade. There have been however some difficulties in reaching an understanding on the definition and limitations of this kind of unfair competition.

"Several Delegations, notably those of Great Britain and the United States, have made the observation that in their country defamation (libel) falls under the disposition of penal laws, and that there is no cause set forth on the subject of special dispositions aimed at the defamation of a competitor. It has been replied that the notion of disparagement is broader than that of defamation, notably that it does not imply an injurious intention. That which one wishes to hit is the fact of discrediting a competitor by affirmations contrary to the truth. On the observation of the French delegation that it is possible to disparage a competitor by prejudicial criticisms and comparisons without these being strictly contrary to the truth, it was replied that in an International Convention the sure and precise criterium of the letter contrary to the truth seems indispensable. From another side one has observed that it did not seem either useful or necessary to set forth particular measures near to the fact of discrediting the person or the same establishment, and that it would suffice to hit the fact of discrediting the merchandise.

"The Sub-Commission is united in this thought. It has resulted in the following text, adopted unanimously: False allegations in the course of trade,

of a nature to discredit the merchandise or products of a competitor." [71]

[Endorsed]: Filed April 9, 1957.

---

[Title of District Court and Cause.]

## AFFIDAVIT OF HENRY GIFFORD HARDY

State of California
City & County of San Francisco—ss.

Henry Gifford Hardy, being first duly sworn, deposes and says:

1. Affiant and Carl Hoppe, whose Affidavit is attached, are attorneys for plaintiff in the above-entitled action, and jointly share the obligations and responsibilities therefor.

2. Affiant has read the attached Affidavit of Carl Hoppe, [72] and believes that the statements therein set forth are true, according to his best knowledge and belief.

3. Further affiant sayeth not.

/s/ HENRY GIFFORD HARDY.

Notary Certificate Attached. [73]

[Endorsed]: Filed April 9, 1957.

[Title of District Court and Cause.]

## REPLY AFFIDAVIT OF CARL HOPPE ON PLAINTIFF'S MOTION UNDER RULE 60(b)

State of California
City and County of San Francisco—ss.

Carl Hoppe, being first duly sworn, deposes and says:

1. Affiant is one of the attorneys for plaintiff in the above-entitled matter.

2. Plaintiff's motion in part is based upon the decision in International Industries and Developments, Inc. v. Farbach Chemical Company (6th Cir. 1957) 241 F. 2d 246.

3. In the briefs of the parties, a dispute has arisen as to the proper interpretation of the International decision.

4. Affiant has examined the Petition for Rehearing filed by the appellant in the International case and believes that it may be helpful in resolving the dispute. [74]

5. The Petition for Rehearing recites:

"Now comes the appellant, International Industries and Developments, Inc., by its counsel, and respectfully petitions the Court to grant a rehearing of this appeal on the following grounds:

"I. The Court erred in holding that the sending of 8000 copies of the letter of April 9, 1953 (App. 79a) to the trade constituted an actionable wrong

against appellee. It is apparent from the face of the letter that it was a mere notice of intention to prosecute infringers. That it was the intent of appellant to send out such a notice is apparent from the minutes of a meeting of the Board of Directors of appellant held on April 3, 1953 (App. 93a) at which time the president of appellant 'reported that a letter had been drafted informing the trade and all parties likely to be interested of our ownership of the Lowenheim patent and giving notice of our intention to prosecute infringers of such patent.' The Court has cited no authorities for the proposition that the sending to the trade of such a notice of intent to prosecute infringers is an actionable wrong against one of the recipients of such letter. We know of no prior decision in this Circuit to that effect. The Second Circuit held to the contrary in Kaplan v. Helenhart Novelty Corporation, 182 F. (2d) 311, 313. The Seventh Circuit has held to the contrary in Mid-Continent Investment Co. v. Mercoid Corporation, 133 F. (2d) 803, 811 (reversed on other grounds). The Third Circuit has held to the contrary in Smith, Kline & French Laboratories v. Clark & Clark, 157 F. (2d) 725, 729, in affirming the ruling of Judge Forman in Smith, Kline & French Laboratories v. Clark & Clark, 62 F. Supp. 971, 1011.

"The fact that the letter of April 9, 1953 (App. 79a) might lead the average recipient to conclude that he might become involved in litigation if he distributed a dip-type silver cleaning liquid or powder received from and manufactured by anyone

not licensed under appellant's patent, is beside the point. Undoubtedly, notice of ownership of the patent relating to this product would lead the distributor to make inquiries, first, as to whether that manufacturer was licensed and, second, as to whether the manufacturer would stand back of his product and indemnify the purchaser against claims for infringement. That is a business commonplace. Anyone learning of a particular patent in a particular art is bound to make inquiry as to where he stands with reference to that patent. That is what happened in the case at bar and most of the letters received from customers of appellee made inquiry as to whether appellee would indemnify and hold them harmless.

"II. The Court erred in holding that the letter of April 9, 1953 (App. 79a) was a notice of infringement sent out maliciously or in bad faith. A mere [75] notice of infringement is not actionable unless it is sent out maliciously or in bad faith. Alliance Securities Co. v. De Vilbiss Mfg. Co., 41 F. (2d) 668, 670, (C. C. A. 6), Oil Conservation Engineering Co. v. Brooks Engineering Co., 52 F. (2d) 783, 785 (C. C. A. 6), Byrne Mfg. Co. v. American Flange & Mfg. Co., 87 F. (2d) 783, 786 (C. C. A. 6), Coats Loaders & Stackers, Inc. v. Henderson, 233 F. (2d) 915, 926 (C. C. A. 6).

"Malice must be personal, that is, directed at someone. In the present case the letter is not to be deemed malicious unless sent out with the intention of injuring appellee, Farbach Chemical Com-

pany. The record is devoid of any such evidence of malicious intent. Neither can malice be implied from the circumstances because appellee was only one of some 8000 addressees to whom the letter was sent. The mailing list included all those in the trade that might be interested and was not limited to appellee, Farbach Chemical Company, or its customers. We fail to see how any malice can be implied from those circumstances. That the letter was sent in good faith is shown by the promptness with which suit was filed after receipt of appellee's threatening letter of April 13, 1953 (App. 80a, 81a).

"III. The Court erred in holding 'that the foregoing letter was the primary and direct cause of the loss to defendant-appellee of its dip-type liquid silver cleaner business.' There is no doubt that appellee's business which had been profitable in 1952 suffered losses in 1953 and subsequent years due in large part to the decreased sales, but there is no basis for ascribing that loss to the letter of April 9, 1953. It appears from the tabulation of appellee's sales and profits, furnished by its own accountant, Df. Ex. 14 (App. 107a) that sales started to decrease in February, 1953, and that the decrease continued in March, 1953, prior to the sending of the letter. It is clear, also, that appellee's business suffered a loss in December, 1952, and losses in February and March, 1953, prior to the letter. There is no basis whatever for ascribing the drop in sales and the losses in April, 1953, and subsequent months to the letter of April 9,

1953, since these decreases in sales and losses were merely continuations of the trend established prior to the letter of April 9, 1953. The evidence fails to show that any substantial amounts of the product were returned to appellee because of the letter of April 9, 1953. The list of returns, Df. Ex. 14 (App. 108a, 109a) fails to show why the goods were returned and is not tied in with the receipt of the letter. The letters from customers (Appellee's App. 55b-97b) are put forward as showing an intention by customers to return goods to Farbach but the list of returns shows that only two of the writers of those letters returned any goods and these in the amount of $1101.30 out of total purchases of $5312.39. It is submitted that the record contains no basis whatever for a finding that appellee was damaged in the amount of $100,000.00 by the sending of the letter of April 9, [76] 1953, to the trade. The District Court appears to have selected that figure 'out of thin air.'

"IV. The Court erred in holding that the award of counsel fees in the amount of $15,000.00 was supported by the evidence and is lawful. The record contains no evidence whatever as to what would have been reasonable attorney fees under the circumstances. While the matter of allowance of attorney fees may be said to be discretionary with a trial court, that discretion does not extend to an arbitrary determination of the amount of attorney fees. The award of attorney fees in the amount of $15,000.00 in the entire absence of any evidence as to what would be reasonable fees for

the services rendered is an abuse of discretion amounting to caprice or an erroneous conception of law on the part of the trial judge. The District Court had no power to make such an award without receiving evidence as to what would be reasonable attorney fees, taking into consideration the services rendered and the time expended. Here, the trial lasted a day and a half, and it is clear that the award is excessive under such circumstances. See Dubil v. Rayford Camp & Co., 184 F. (2d) 899, 903 (C. C. A. 9)."

6. On April 18, 1957, the Court of Appeals for the Sixth Circuit denied the foregoing Petition for Rehearing.

/s/ CARL HOPPE.

Notary Certificate and Proof of Service Attached. [77]

[Endorsed]: Filed May 7, 1957.

---

[Title of District Court and Cause.]

## ORDER ON PLAINTIFF'S MOTION FOR RELIEF FROM JUDGMENT UNDER RULE 60(b)

This cause was remanded to this court by order of the United States Court of Appeals for the Ninth Circuit, filed May 23, 1957, and is now before the court on plaintiff's motion, filed April 9, 1957, to vacate final judgment entered on December 20, 1956, pursuant to Fed. R. Civ. P. 60(b);

and the motion having been submitted for decision; and it appearing to the court that: considering plaintiff's motion as coming within the provisions of Rule 60(b) (1), (5) or (6) [see Berryhill v. United States, 199 F. 2d 217 (6th Cir. 1952); Federal Enterprises, Inc. v. Frank Allbritten Motors, Inc., 16 F.R.D. 109 (W.D.Mo. 1954); Ledwith v. Storkan, 2 F.R.D. 539 (D. Neb. 1942)], the law of Ohio, as interpreted in Int'l Industries & Developments, Inc. v. Farbach Chemical Co., [81] 241 F. 2d 246 (6th Cir. 1957), affirming 145 F. Supp. 34 (S. D. Ohio 1956), must be held to accord a patentee the qualified privilege to publish a charge of patent infringement to other interested persons, even though the charge later proves to be false, if the patentee reasonably and in good faith believes the charge to be true, and the charge was not prompted by malice, but was made solely in defense of his patent; and the Convention for the Protection of Industrial Property of the Union of Paris [53 Stat. 1748 (1934)] does not, absent effectuation thereof by the Congress, eliminate the defense of privilege, good faith and absence of malice permitted by the law of Ohio [see Vanity Fair Mills, Inc. v. The T. Eaton Co., 234 F. 2d 633, 640 (2d Cir.), cert. denied, 352 U.S. 871 (1956); cf: Bicardi Corp. v. Domenech, 311 U.S. 150 (1940); Geofrey v. Riggs, 133 U.S. 258, 266 (1890); Head Money Cases, 112 U.S. 580, 598 (1884)].

It Is Now Ordered that plaintiff's motion to vacate the final judgment entered on December 20, 1950, is hereby denied.

It Is Further Ordered that the Clerk this day serve copies of this order by United States mail upon the attorneys for the parties appearing in this cause.

June 21, 1957.

/s/ WM. C. MATHES,
United States District Judge. [82]

[Endorsed]: Filed June 24, 1957.

---

In the Supreme Court of Ohio

Error to the Court of Appeals of Cuyahoga County

Case No. 21428

HARRY J. McCUE, Plaintiff in Error,

vs.

HUGH WELLS, TRUSTEE THE HENRY GEHRING COMPANY, a Corporation,
Defendant in Error.

PETITION IN ERROR

* * * * *

In the instant case, however, while the falsity of the statement was alleged in the petition, malice was not alleged, neither were special damages alleged. A careful reading of the record of the plaintiff's testimony shows that there was no evidence introduced by the plaintiff showing, or tending to show that the publication complained of was false.

There was not a scintilla of evidence showing, or tending to show any malice on the part of the defendant and there was no evidence introduced showing special damages. As these elements were an essential part of the plaintiff's case, the burden being upon the plaintiff to introduce evidence on these points, the court should have sustained the Motion of the defendant to direct a verdict at the close of plaintiff's case.

* * * * *

For all the foregoing reasons, the record failing to show any evidence by the plaintiff tending to show the falsity of the publication and failing to show any evidence tending to prove malice on the part of the defendant and failing to show any special damage, the Motion to direct the verdict at the close of plaintiff's case should have been sustained and the Motion to direct a verdict at the close of the whole case should have been sustained.

We shall now take up the question of error of the court in its charge to the jury.

* * * * *

The Supreme Court of the State of Ohio,
Of the Term of January, A. D. 1956
To wit: Wednesday, May 29, 1929

[Title of Cause.]

ERROR TO THE COURT OF APPEALS
OF CUYAHOGA COUNTY

This cause came on to be heard upon the transcript of the Record of the Court of Appeals of

Cuyahoga County, and was argued by counsel. On consideration whereof, it is ordered and adjudged by this Court, that the Judgment of the said Court of Appeals be and the same is hereby, reversed for the reasons stated in the opinion filed herein; and this Court proceeding to render the judgment that the Court of Appeals should have rendered, it is ordered and adjudged that the judgment of the Court of Common Pleas be, and the same hereby is, reversed and said cause is hereby remanded to the Common Pleas Court of Cuyahoga County for a new trial.

* * * * *

---

[The original exhibit received by the Clerk on or about December 11, 1956 was certified by the Clerk of the Court of Appeals for the Seventh Circuit as constituting pages 88 through 92 of the printed record in the Court of Appeals in Cause No. 5978, entitled E. Edelman & Co. v. Triple-A Specialty Co., the decision being reported in 88 F. 2d 852.]

Filed June 26, 1936.

And afterwards, to wit, on the 26th day of June, 1936, being one of the days of the regular June term of said Court, in the record of proceedings thereof, in said entitled cause, before the Honorable William H. Holly, District Judge, appears the following entry, to wit:

Findings of Fact and Conclusions of Law

In the United States District Court
* * (Caption—14904) * *

## FINDINGS OF FACT

1. This is a petition for a Declaratory Decree, filed November 2, 1935, under the United States Declaratory Judgments Act (Title 28, U. S. Code, Section 400).

2. The petition prays for a Declaratory Decree adjudging the Edelmann patent No. 1,800,139 to be invalid, and also adjudging that none of the claims of said Patent is infringed by Frostgage No. 711, made and sold by Petitioner.

3. Petitioner is an Illinois corporation, having its principal office and place of business in the City of Chicago, in the State of Illinois, and is engaged in manufacturing said No. 711 Frostgage, among other things.

4. Respondent is also an Illinois corporation, having its principal office and place of business in the City of Chicago, in said district, and is the owner of said Edelmann patent No. 1,800,139, Respondent being likewise engaged in the manufacture of hydrometers or frostgages, among other things.

5. Respondent in writing charged Petitioner with infringing said Edelmann patent No. 1,800,139, by the manufacture and sale of said No. 711 Frostgage. Petitioner replied to said charge, denying infringement, and Respondent reiterated said charge all before this suit was commenced.

6. Respondent competes with Petitioner in the sale of hydrometers, and in the conduct of its business Respondent, before Nov. 2, 1933, sent to customers and prospective customers of the Petitioner communications stating that the No. 711 Frostgage made and sold by Petitioner infringes said Edelmann patent No. 1,800,139, certain of said communications so sent to Petitioner's customers by respondent stating that, unless said alleged infringing acts "be discontinued forthwise there is no other alternative except to enter suit against the Triple-A Specialty Company and against any and all jobbers, dealers, and others that may sell the infringing instrument."

7. That, as a result of the sending out of said communications by Respondent, certain customers of Petitioner have cancelled orders or returned said alleged infringing frostgages for credit, and that thereby Petitioner has been damaged or injured by the said acts of Respondent.

8. That all the claims of the Edelmann patent No. 1,800,139 include a float element having a member of cushioning material fitted upon, carried by, or mounted on said float element, said float element being identified as No. 6 in Fig. 1 of the drawings of said Edelmann patent; that Petitioner uses no cushioning material on the bottom of its float element corresponding to float element No. 6 of the Edelmann patent; and that Petitioner's hydrometer is not within any of the claims of the Edelmann patent No. 1,800,139.

9. The Edelmann patent No. 1,800,139 describe and claims a device which has never been sold com mercially by Respondent; that the application fo said patent was filed on August 6, 1926; and tha Respondent concedes that none of the devices o said patent have been sold by Respondent.

10. The court has not considered the question o the validity of said Edelmann patent, and therefor makes no finding as to validity or invalidity.

## CONCLUSIONS OF LAW

### I.

The court has jurisdiction of the parties and o the subject matter of this suit, inasmuch as it seek a declaration of rights and other legal relation arising out of or under the patent laws of th United States.

### II.

The allegations of the petition and the fact proven on the trial establish the existence of a actual controversy between the parties, prior to th filing of this suit, of which this court has juris diction.

### III.

The court, having jurisdiction of the parties an of the subject matter, by reason of the prayer fo declaratory relief, has jurisdiction to and shoul completely dispose of the entire issue between th parties arising out of the same subject matter, an the court therefore has jurisdiction to order th injunction and accounting prayed.

IV.

Respondent alleges that claims 5, 6, 7, 9, and 13 of said Edelmann patent No. 1,800,139 are infringed by Petitioner's No. 711 Frostgage, but the court finds, as a matter of law, that said Frostgage does not infringe either or any of said claims or any other claims of said patent.

V.

The equities of this cause are with Petitioner and against Respondent, and a decree may be presented in accordance with these findings, providing for an injunction and a reference to a Master for an accounting.

WILLIAM H. HOLLY,
United States District Judge.

O.K. as to form:

BARNETT & TRUMAN,
Solicitors for Respondent.

Entered June 26, 1936.

And afterwards, to wit, on the 26th day of June, 1936, being one of the days of the regular June term of said Court, in the record of proceedings thereof, in said entitled cause, before the Honorable William H. Holly, District Judge, appears the following entry, to wit: Final Decree.

In the United States District Court
* * (Caption—14904) * *

## FINAL DECREE

This cause having come on to be heard in open court upon the petition and the answer, and the court having considered the evidence adduced by the parties, both oral and documentary, and the court having filed its Findings of Fact and Conclusions of Law, on motion of Dyrenforth, Lee, Chritton & Wiles, solicitors for Petitioner, it is adjudged, decreed and declared by the court as follows:

1. That Petitioner's No. 711 Frostgage does not infringe claims 5, 6, 7, 9, and 13 of said Edelmann patent No. 1,800,139, or any other claims of said patent.

2. That Petitioner is entitled to the relief sought or prayed in and by its said petition, and that this cause is hereby referred to Thomas J. Peden, Esq., a Master in Chancery of this court, to take proofs and make a report herein respecting an accounting for damages against Respondent; that an injunction be granted herein pursuant to the prayer of the petition; and that the costs of this suit be taxed against the Respondent by the Clerk of this Court.

WILLIAM H. HOLLY,
United States District Judge.

O.K. as to form:

BARNETT & TRUMAN,
Solicitors for Respondent.

Filed July 22, 1936

And on, to wit, the 22nd day of July, 1936, came the Appellant by its attorney and filed in the Clerk's office of said Court a certain Petition for Appeal in words and figures following, to wit:

In the District Court of the United States
* * (Caption—14904) * *

PRAYER FOR APPEAL

Now comes the respondent, E. Edelmann & Company, and files herewith its Assignment of Errors and prays an appeal to the United States Circuit Court of Appeals for the 7th Circuit from the decree entered herein, to wit, June 26th, 1936.

BARNETT & TRUMAN,
Solicitors for Respondent.

And on, to wit, the 22nd day of July, 1936, came the Appellant by its attorney and filed in the Clerk's office of said Court a certain Assignment of Errors in words and figures following to wit:

Filed July 22, 1936

In the District Court of the United States
* * (Caption—14904) * *

ASSIGNMENT OF ERRORS

And now comes the respondent, E. Edelmann & Company, and assigns error in the decree entered herein, to wit, June 26th, 1936, as follows:

1. That the Court erred in decreeing that Petitioner's No. 711 Frostgage does not infringe either of claims 5, 6, 7, 9 and 13 of the Edelmann patent No. 1,800,139 or of any other claims of said patent.

2. The Court erred in decreeing that this cause should be referred to a master in chancery to take proofs and make report herein respecting an accounting for damages against respondent.

3. That the Court erred in decreeing that an injunction be granted herein pursuant to the prayer of the petition.

4. That the Court erred in decreeing that the costs of this suit be taxed against the respondent by the Clerk of this Court.

5. That the Court erred in holding that the Court has jurisdiction of the parties and of the subject matter of this suit.

6. The Court erred in finding that the facts proven on the trial establish the existence of an actual controversy between the parties prior to the filing of this suit, of which this Court has jurisdiction.

7. The Court erred in finding that the Court has jurisdiction to order the injunction and accounting prayed.

8. The Court erred in finding that the equities of this cause are with petitioner and against respondent.

9. The Court erred in finding that as the result of sending out communications by respondent certain customers of petitioner have canceled orders or returned said alleged infringing frost gauges for

credit and that thereby petitioner has been damaged or injured by the acts of respondent.

10. The Court erred in finding the petitioner uses no cushioning material on the bottom of its float element corresponding to the float element specified in Claims 5, 6, 7, 9, and 13 of the Edelmann patent No. 1,800,139.

BARNETT & TRUMAN,
Attorneys for Respondent.

---

[Title of District Court and Cause.]

## CERTIFICATE BY CLERK

1, John A. Childress, Clerk of the above-entitled Court, hereby certify that the items listed below constitute the transcript of record on appeal to the United States Court of Appeals for the Ninth Circuit, in the above-entitled case:

A. The foregoing pages numbered 1 to 84, inclusive, containing the original

Mandate of Court of Appeals;

Order for Findings of Fact, Conclusions of Law;

Findings of Fact, Conclusions of Law, and Judgment;

Motion and Notice of Motion to Amend Findings of Fact and Conclusions of Law; together with Memorandum in support thereof;

Order on Plaintiff's Motion to Amend Findings of Fact, etc.;

Notice of Appeal;

Stipulation Dispensing with Bond on Appeal;

Statement of Points on Appeal;

Designation of Contents of Record on Appeal;

Stipulation for Extending Time to Docket Record on Appeal;

Stipulation for Extending Time to Docket Record on Appeal;

Motion and Notice of Motion to Vacate and to set aside the final judgment entered against plaintiff in this cause on December 20, 1956;

Reply Affidavit of Carl Hoppe on Plaintiff's Motion under Rule 60(b);

Order on Plaintiff's Motion to Vacate Judgment under Rule 60(b);

Order on Plaintiff's Motion for Relief from Judgment under Rule 60(b);

Supplemental Designation of Record on Appeal;

Photocopy of cases McCue v. Wells and Triple-A Specialty v. E. Edelmann;

B. Reporter's official transcript of proceedings for July 23, 24, 26, 1956;

C. Plaintiff's exhibits 1, 2, 3, 11, 16-A, 16-B, 16-C, 20 through 30, incl., 34, 53, 54, 57 through 82, inclusive;

Defendant's exhibits a through g, incl., g, j, ii, jj, ll, mm, nn, oo, pp, qq, rr.

I further certify that the fee for preparing the foregoing record, amounting to $1.60, has been paid by appellant.

Witness my hand and seal of the said District Court this 19th day of July, 1957.

[Seal] JOHN A. CHILDRESS,
Clerk,

/s/ By WM. A. WHITE,
Deputy.

In the United States District Court, Southern District of California, Central Division

No. 8909-WM—Civil

KEMART CORPORATION, a corporation,
Plaintiff,

vs.

PRINTING ARTS RESEARCH LABORATORIES, INC., a corporation, Defendant.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

Honorable William C. Mathes, Judge presiding.

Los Angeles, California
Monday, July 23, 1956

Appearances: For the Plaintiff: Lyon & Lyon, 811 West Seventh Street, Los Angeles, California; by Leonard S. Lyon, Jr., Esq. For the Defendant: Carl Hoppe, Esq., 2610 Russ Building, San Francisco 4, California. [1]*

The Clerk: Case No. 8909, Kemart Corporation vs. Printing Arts Research Laboratories.

The Court: I have read the Circuit Court's opinion preparatory to this hearing. I don't assume there is any problem on the questions of costs the court ruled upon.

Mr. Hoppe: Your Honor, I think there might be

---

* Page numbers appearing at bottom of page of Reporter's Original Transcript of Record.

a possibility of one item. And, frankly, I can't quite understand exactly what the Court of Appeals had in mind on the $5750 bond item. In there they said it was a matter that rested within your Honor's sound discretion. And they also said that your Honor was not bound by the ruling that the clerk had made in that particular matter.

However, your Honor will recall in deciding the question, at least as I understood your Honor's opinion, it was that you affirmed the clerk's ruling on the basis of his ruling, and since the court ended up its discussion of that item with a statement to the effect that it was a matter within your sound discretion, although the court earlier had said that it thought your ruling was right, I wondered if that discretionary matter isn't open for consideration by your Honor on the question of whether your Honor chooses to exercise his discretion on that item or not.

The Court: Well, Mr. Hoppe, I have a definite opinion. My recollection is very poor at this time. It is not most times on such matters. But my recollection was that I rejected the item on a different ground than the clerk. It may [3] not have been said so formally. I don't recall what was said formally. But my own recollection is that I deemed that that was a usurious contract and it would be contrary to public policy.

Mr. Hoppe: That's the ground that I thought your Honor had ruled on it, not on the exercise of discretion. And the court said that the allowance of it was a matter of discretion. So I do think, since

the court did not go into the ground that you had ruled on, and said that it was a matter of discretion rather than a matter of strict non-allowance, I would think it is open for a review here at this time to see whether your Honor would care to exercise his discretion or not.

The Court: It would give the court sanction to a usurious transaction, as I view it. If I had the discretion to exercise now I would still exercise it in the same way I did before.

Mr. Hoppe: I was just curious, your Honor, whether it had been allowed or disallowed in your discretion last time, and I did not so understand it. I understood it that it was because your Honor was of the view that the contract was a usurious contract.

The Court: That is my view and was my view then. I may have affirmed the clerk without saying so. I don't recall just how the ruling was made. [4]

Mr. Hoppe: Well, on the procedure—as your Honor knows, this is the first time I have ever been before your Honor on what might be called either a trial, or really a retrial. And I just picked up your Honor's list of mimeographed rules here and I do think that we can speed this up if we could have a 15-minute recess so I could have the clerk mark the exhibits in accordance with Item 3 on your mimeographed list. I think it will speed things up a great deal.

The Court: Very well. This is a new trial. May it be stipulated that the record previously made

upon previous trials and hearings will be introduced now in evidence upon this trial?

Mr. Hoppe: I would not be willing so to stipulate, your Honor.

I want to take parts of the earlier record as admissions against interest. But I would not like to stipulate that any testimony which was not against interest could be received on this hearing, because I think one of the points that we have before your Honor is the mode in which the evidence was presented on the first trial to your Honor. And I don't think it would be fair to my client to stipulate that the earlier record could be used without limitations.

The Court: Very well.

Mr. Lyon: Am I to understand that we can't use the earlier record; that this is just a new trial and not further [5] trial proceedings in which you want to adduce new and different evidence?

The Court: I take it you are not offering any new evidence on the issues of validity and infringement.

Mr. Hoppe: No, sir.

The Court: What about the evidence relative to those issues?

Mr. Hoppe: Well, I can give your Honor an example as to why it would be against the interest of the plaintiff to stipulate to the earlier trial.

The Court: I don't question your discretion in the matter, Mr. Hoppe. The problem we have here is that the findings are at large now, as I understand the record.

Mr. Hoppe: The findings on damages and attorneys' fees.

The Court: The findings of validity and infringement are at large.

Mr. Hoppe: I won't agree with your Honor.

The Court: Then you believe that the findings and judgment as made following remand after the first appeal are still in effect, and that the court has merely ruled that this court did not adjudicate two issues that should have been adjudicated, namely, the question of the issue of damages and attorneys' fees.

Mr. Hoppe: I think those are the only questions that are at large, your Honor. [6]

The Court: Very well. If we are in agreement on that then the other record stands with respect to validity and infringement. Is that agreed, Mr. Lyon?

Mr. Lyon: Yes, that is agreed, your Honor. But I think that the other record should stand on this question, too. Do we have to bring all the witnesses back and start over? Mr. Hoppe's predecessor put in his case on this matter of alleged unfair competition that is now before your Honor. The entire case was put in. I know your Honor ruled at that time that the evidence didn't support it, but that it was sent for reconsideration when the patent was held not infringed.

The Court: Well, is it agreed that either side may use any portion of the record made upon the former trial?

Mr. Hoppe: I would agree, your Honor, that

either side could use any admissions against interest which appear in the earlier record, because that is the general rule anyway. But there is much hearsay that was relied on in the argument to the Court of Appeals in favor of good faith on the part of the defendant, and I don't like to have that hearsay relied upon here. That is why I would think that a blanket admission that the entire record could be used would be too broad.

The Court: Suppose Mr. Lyon wishes to use the testimony of one of his witnesses—and I don't have any one particularly in mind—instead of calling a witness, is it agreeable that he use the witness' testimony upon the previous trial? [7]

Mr. Hoppe: It would be, your Honor, if I could reserve objections as to the part he wants to use on the basis of either hearsay or any other objection. He could use it as a deposition. That would be perfectly all right with me.

Mr. Lyon: I prefer to state it this way: We can stipulate that the old record is a part of this one, subject, of course, to your Honor's control with regard to whether the various purported parts of evidence in it would be admissible. In other words, your Honor at any time during the trial of the case can change his mind about his ruling or an objection, and I think that still pertains here. In other words, I think this is just a further trial of the same issues.

The Court: Well, Mr. Hoppe wishes to offer new evidence.

Mr. Lyon: Well, I understand that. And I also

understand that you ruled that he may, although I would like to formally reserve an objection on the grounds that he has made no motion to put in new evidence and made no showing this is new evidence. But that, notwithstanding, I would be perfectly happy to enter into a stipulation whereby Mr. Hoppe can make such objections, based on the law of evidence, as he chooses to portions of the old record. And I would like to be able to do the same thing.

Mr. Hoppe: Well, your Honor, that would be satisfactory to me, just so long as it would be understood that if at the earlier trial evidence was received which was otherwise hearsay [8] that at this trial any waiver of hearsay at that time would not carry through to this trial.

The Court: Well, as I understand Mr. Lyon's proposal it is that any objections that properly may be made, or motions to strike which properly may be made would be available to each of you. Is that it?

Mr. Lyon: That was my intention.

The Court: Do you have the record of the previous trial?

Mr. Hoppe: Yes, your Honor. But if we were to bring a motion to strike, your Honor, the motion to strike would be so voluminous because there is much that has to do with the issue of infringement and much that has to do with the issue of validity.

The Court: Well, those have been settled, haven't they? Those have been laid to rest.

Mr. Hoppe: But they should not be part of the

record. I personally seriously, your Honor, think it would be more cumbersome procedure to bring a motion to strike everything that you don't want in the old record than it would be to read the portions of the old record that you want in evidence, much as we read depositions in evidence. Because there are only a few pages of the existing record that I would like, your Honor.

The Court: The case has been partially tried and that [9] record is made, and the findings have been made and the judgments made, and all of that is final now, isn't it?

Mr. Hoppe: That is right, your Honor.

The Court: And the court has sent it back here for the trial—laying aside the cost question because those are always supplemental to the trial anyhow—but the court has sent it back for the trial of these two issues. Now, if it went up again wouldn't the court consider the whole record in the case? Wouldn't they consider what we make here now and what we made before?

Mr. Hoppe: If we were to stipulate, your Honor, that the old record made in this case were to be used with the same force and effect as though it were a record made on this retrial, then the Court of Appeals would, of course, consider it.

The Court: But we aren't retrying any issues now, are we?

Mr. Hoppe: Just the issues of damages and attorneys' fees.

The Court: That has never been tried, the court ruled.

Mr. Hoppe: Yes.

The Court: So we aren't retrying anything, are we? We are just trying two issues that the Court of Appeals said we overlooked. Isn't that the situation?

Mr. Hoppe: Well, I would say that your Honor is generally [10] correct.

The Court: So aren't we supplementing the old record? I should think that if the case went up again the court would consider the transcript up to the pages you have there would be part of the transcript and the transcript we make from today on would be another part of the transcript.

Mr. Lyon: Your Honor, isn't it true that much of the plaintiff's case in which he alleges this bad faith seems to be based on what the plaintiff proposed took place at the first trial? I don't see how we can proceed without considering the earlier proceedings. I thought that is what his argument was.

The Court: I believe you will be supplementing the first transcript. If we were retrying issues previously tried, I would say the matter would be at large. But since we are not retrying any issues previously tried, and we are trying issues that were not adjudicated in any prior trial, it seems to me we will be merely supplementing the transcript and that you would be under the burden of eliminating from that record anything that you don't want in it.

Mr. Hoppe: I think you and I are saying the

same thing, your Honor, but we are getting at it from a different side of the tree.

The Court: Probably.

Mr. Hoppe: The only reason I wouldn't want the whole [11] record in there on the question of damages and attorneys' fees is that I don't think it's all material and relevant on the question of damages and attorneys' fees; although, physically, the record is there. Now, there are certain parts of it which we think are very relevant, but not—like, for example, some of the things that we say are evidence of bad faith if there is bad faith. I would like to give your Honor an example of one of the situations we have to illustrate why it wouldn't be feasible just to accept the old record as an old record. And that is with respect to one of these exhibits, which was originally Defendant's Exhibit J. Your Honor will recall that Mr. Marx testified that that was typical of the half-tone problems of the day. Now, if we were to use that old record, that would become evidence of the fact that those were typical. Now, on this particular question of damages we would like to refer and introduce that testimony on this question of damages, but not as proof of the statement but as a verbal act, and we then have illustrations of half-tone photography of that date which is everywhere near as good as the stuff Marx did, merely to show that it was not a proper presentation of the state of the art on the first hearing. And as a consequence we will argue—although we won't put this in evidence—when the record is in we will argue that

was one of the things that led this question of equivalents too far afield which resulted in, [12] possibly, the reversal here.

Another thing—and I just cite this to show you how difficult it would be to bring a motion to figure out whether you are going to strike part of the old record—the other thing is, your Honor will recall, that this whole controversy started really on October 7, 1948, at which time Mr. Marx displayed a letter at the convention saying that the "* * * Kemart process infringes our patent * * *" and in that letter Mr. McCaleb, who was the president of Printing Arts Research, said, "I have made a thorough study of the patents." Now, if that letter presently is in evidence on the old record and the hearsay statement "I have made a study of the old patents" is in truth a part of the old record, and on the question of damages we want to put that letter in evidence, not as proof of its contents but as a verbal act so that we will wipe out that hearsay—because I don't believe that anyone did make any investigation of these patents, because Mr. Marx testified in some of the depositions——

The Court: Well, was it received at the trial as evidence that he had made a study? It wasn't received as evidence.

Mr. Hoppe: No, your Honor.

The Court: It was received only as evidence that he said so, wasn't it?

Mr. Hoppe: Well, it was received generally, and I—— [13]

The Court: Well, I don't see, Mr. Hoppe—to

shorten this—I just don't see that it makes any difference what we agree here. It seems to me that the record is already made up to this point, and since we are not retrying those issues, the issues which were adjudicated on that record stand and it seems to me that the record would have to stand.

Now, it's for us to supplement it upon a trial of these additional issues. This is like an equity case, in effect, where we adjudicated all the main issues, and some ancillary issues such as allowance of attorneys' fees and supplemental relief comes up and the court has to take judicial notice of what has gone before.

Mr. Hoppe: Well, I think, then, that we are all really in agreement, your Honor. All I want to do is make sure that I am not bound by any hearsay in the earlier record.

The Court: Well, we will disregard it if it is there, if it is hearsay, because the Court of Appeals presumes that we disregard all incompetent evidence, in any event. And whatever is there will not be used as proof of any fact.

Mr. Hoppe: If that is agreeable with counsel for the defendant, that is agreeable to me; that we will not rely upon any hearsay statements contained in the existing record, but the rest of the record, where material and otherwise relevant, can be relied upon.

Mr. Lyon: I can't accept a statement of counsel that [14] way. I am only willing, sir, to go along as you have said, and I agree one hundred per cent with you.

The Court: Very well. Perhaps we are not apart at all, gentlemen. If there are any matters in the record that are relied upon as proof of a fact which is hearsay they will not be accepted as proof of the fact. They might be accepted as proof, as you suggest, of an oral act.

But we will take a recess now, subject to call, and you let the clerk know when you are ready.

Mr. Hoppe: Very well, your Honor.

(Short recess.)

Mr. Hoppe: Your Honor, I would like to call Mr. Adams to the stand.

Mr. Adams, would you take the stand, please.

FRANK P. ADAMS

called as a witness by and on behalf of the plaintiff, having been first duly sworn, was examined and testified as follows:

The Clerk: Will you state your name, please?

The Witness: Frank P. Adams.

Direct Examination

Q. (By Mr. Hoppe): Mr. Adams, are you the same Mr. Adams who has testified at earlier hearings in this case? A. Yes. [15]

Mr. Hoppe: May I hand earlier Plaintiff's Exhibit 29 to the witness?

(Whereupon the document was placed before the witness.)

Mr. Hoppe: Plaintiff's Exhibit No. 29 is something which purports to be a copy of a letter from Mr. McCaleb to Kemart Corporation dated in November of 1948.

(Testimony of Frank P. Adams.)

Q. (By Mr. Hoppe): Mr. Adams, referring to the portion of that letter on page 1 and page 2 which purports to be a quotation from an earlier letter, would you please state the circumstances under which you saw that earlier letter as mentioned in Plaintiff's Exhibit 29?

A. I was in Cleveland, Ohio, at the Statler Hotel at the time of the American Photoengravers convention there. It was the opening day of the convention, the 7th of October, and shortly before noon Mr. Walter Marx and Mr. William Pensinger, who were representing the Printing Arts Research Laboratories, beckoned to me across the room. They had an exhibition booth there, and I had the Kemart exhibit booth across the room. And as the activities of these booths subsided somewhat for the lunch hour, I responded to their beckoning and went over there and talked to them. And at that time they showed me this quoted letter which was signed by Mr. McCaleb and told me at that time they felt that what Kemart was doing in its business was an infringement of their patent which they were licensing under the Fluorographic process. And I told them I thought it was not. And prior to engaging in the licensing of the Kemart process we had made a thorough study of that matter. And we left it. We disagreed as to whether or not what they said was true and whether or not what I said was true. We had no way of reconciling our different opinions.

(Testimony of Frank P. Adams.)

Q. Now did you hear about that letter from others than Mr. Marx and Mr. Pensinger?

A. Yes. That evening I learned that others had seen this letter.

Q. And on what date was that, Mr. Adams?

A. Well, that was the same day. It was the first day of the convention. I believe that was October 7, 1948.

The Court: By "others," you mean other people connected with other concerns?

The Witness: Well, yes, your Honor. One of them was a Mr. Schmidt who was the head of the Harold M. Pittman Company, and that firm is the largest graphic arts supply firm in the country. And he had been handling Fluorographic products, and he was also a dealer for Kemart products. And his salesmen were selling our products. And the communication to him was a rather meaningful thing. It concerned me very much at the time.

Another person that I learned had heard it—seen it, rather—was a Mr. Louis Flader who I think has since retired [17] but at that time was still the secretary of the American Photoengravers Association, and was the editor of the Photoengravers Bulletin, which is the trade journal which circulates to everybody in the industry. And also——

Mr. Lyon: Your Honor, I object to the questions and answers and move that they be stricken unless it is shown how Mr. Adams obtained this information. It is not shown that he discussed these matters with Mr. Schmidt and Mr. Flader.

(Testimony of Frank P. Adams.)

As far as I know, it may be hearsay that they received any communication.

The Witness: Well, I did discuss it with them. That is how I learned that they had seen it.

The Court: That was Mr. Lyon's point.

The Witness: Yes. I am sorry. I shouldn't have said that, I guess. I did discuss it with Mr. Flader and with Mr. Schmidt and with Mr. Mertle.

The Court: Who is Mr. Mertle?

The Witness: Mr. Mertle in that year was bringing out a book in collaboration with Mr. Flader to be called "Modern Photoengraving," and it was a comprehensive book of everything in the industry. Mr. Mertle is a columnist. He writes articles for the Photoengravers Bulletin and the National Lithographer, discussing technical problems and problems relating to the industry; and, along with other people, Kemart had hired him as a technical consultant. He is an independent [18] person in his role as a writer of articles.

Mr. Lyon: Your Honor, perhaps at least for my own purposes we can get a general ruling from you as to how we shall proceed. This evidence was all adduced in the exact same way earlier in the case. Mr. Adams testified, in so far as I can see from reading the transcript, in the exact same manner before you a few years ago.

The Court: Yes, I believe I recall it generally. Is it your purpose to repeat it, Mr. Hoppe?

Mr. Hoppe: This is just preliminary to some new testimony, your Honor.

(Testimony of Frank P. Adams.)

The Court: Very well.

Q. (By Mr. Hoppe): Now, following the time that you heard that these charges had been circulated at the convention, what did you do, Mr. Adams? Clear up the matter.

A. Well, in response to these things I stated to anybody that I thought was interested in the subject that I disagreed on the conclusions, and that I felt that what we were doing was an independent thing which we had a perfect right to do. And I wrote a letter home to Mr. Berry that night and told him what had happened and said, "As soon as I get home we must get into a conference on this subject."

And I then stayed at the convention for the next two days and proceeded about the selling of Kemart just as Mr. Marx proceeded about the selling of Fluorographic. [19]

Q. Outside of the verbal acts, Mr. Adams, I am interested in whether you did things to clear up the charges that may have resulted in expense to the Kemart Corporation.

A. While at the convention, Mr. Hoppe?

Q. After the charges had been made.

A. After I got home I sent out a communication to the licensees and——

The Court: The licensees of the Kemart process?

The Witness: Of the Kemart process. Because I didn't know how far this discussion had gone.

(Testimony of Frank P. Adams.)

Mr. Hoppe: I hand the witness Plaintiff's Exhibit 60 for identification.

Mr. Lyon: May I have a copy of that, counsel?

Mr. Hoppe: I showed you a copy before.

Mr. Lyon: I would like to have one before me.

Mr. Hoppe: I will see if I have some more copies of those, counsel.

The Witness: This is not marked.

The Clerk: It is on the back.

The Witness: Thank you.

The Court: Wasn't Mr. McCaleb the attorney?

Mr. Lyon: Yes, sir.

The Court: He is since deceased, is that right?

Mr. Lyon: He was the attorney who represented Printing Arts. He tried the case before you, and is now deceased. [20]

The Court: I remember him. I had that recollection.

Mr. Hoppe: Mr. McCaleb was also president of the Printing Arts Research Laboratories.

The Court: He was also a practicing patent attorney in Chicago.

Mr. Hoppe: Yes, he was in Chicago, your Honor.

Mr. Lyon, that is the only copy of that I have. That is why I wanted to show you those copies.

Mr. Lyon: Yes, I looked at it. I have seen it. But I have some difficulty in retaining it in my head.

The Court: Well, have you finished with it?

The Witness: Yes. I have identified it. I know what it is. I wrote the letter.

(Testimony of Frank P. Adams.)

The Court: The clerk will hand it to Mr. Lyon.

(Whereupon the document was handed to counsel.)

The Court: Is your purpose to establish how much it cost the plaintiff——

Mr. Hoppe: Yes, your Honor, to show how much it cost us to clear up these charges, and what we had to do.

Q. (By Mr. Hoppe): Now, besides doing that, Mr. Adams, did you do other things to clear up the charges? A. Yes.

Q. What else did you do, Mr. Adams?

A. Well, I believe that's the letter that I sent to the editor of the Photoengravers Bulletin and told him if he [21] cared to publish it that it would be fine, because I wanted to get my statement of opinions to as many people as I could. And that letter we have here was mailed to all the Kemart licensees, and mimeographed so that a copy could also go to our dealers for any prospective Kemart licensees who would be interested in knowing what position we felt was the right position.

Q. Now, in that letter you refer to "litigation." Is that the suit that we are now fighting?

A. Yes. We filed that suit just before that letter, I believe.

Q. And who bore the expense of that litigation?

A. Kemart Corporation did.

Mr. Hoppe: Now, your Honor, I don't know whether at this hearing it is your Honor's desire that I should go into the question of damages gen-

(Testimony of Frank P. Adams.)

erally to show general damages so that we can have an accounting as to specific damages, or if it is your Honor's desire that we should go into the exact amount of damages. We are prepared to go either way.

Mr. Lyon has a comment that I think you would like to hear.

The Court: All right.

Mr. Lyon: Originally, I believe, your Honor, plaintiff asked for an accounting. Mr. Hoppe has presented me with some tabulations—— [22]

Mr. Hoppe: We haven't come up to that yet.

Mr. Lyon: But it indicates to me that it is going to be a very burdensome thing if we are going——

The Court: Accounting for damages for infringement?

Mr. Lyon: No. An accounting for damages on this matter of unfair competition. That's what plaintiff asked for. Now, it seems to me it's going to be extremely burdensome to go into those details in amount of damages at this time. I know, as far as I am concerned, I would want to examine plaintiff's witnesses on each and every one of these alleged transactions that are supposed to establish the money amount of damages. Perhaps we could better dispose of the matter as the other side previously requested, and that is by way of reserving that matter of the amount of damages for an accounting just in the event that you decide that any damages whatsoever are to be forthcoming.

(Testimony of Frank P. Adams.)

Mr. Hoppe: Well, your Honor, either way that your Honor would like it.

The Court: Suppose we hear the evidence first on the issue of liability and then reserve the detained evidence on the issue of the damages until a ruling on the question of liability is made, if that is practicable. If it isn't practicable we will refer——

Mr. Hoppe: Then we will not go into details, but we will just go into generalities on the question of damages to [23] show that we will be entitled to them if we prevail on the main issues.

The Court: Yes, to show that they are matters of substance.

Q. (By Mr. Hoppe): Now, Mr. Adams, without affirmatively establishing the exact amount of the damages at this time in view of his Honor's ruling, about how much money did Kemart spend on this litigation?

Mr. Lyon: I object, your Honor. I don't think that is relevant. I don't think it is a proper item of damages to start with.

Mr. Hoppe: Your Honor, I prepared for that. It was brought out in this hearing—this libel took place in the State of Ohio, and the Ohio law is set down in Finney v. Smith, which is 31 Ohio State 529 and it says, "It is well settled in Ohio that as part of the damages in a libel case there are the expenses of clearing up the charge, which includes attorneys' fees and all of the expenses of litigation." Ohio has the minority rule in that case. And

(Testimony of Frank P. Adams.)
at the hearing before the Court of Appeals counsel for both sides agreed that the Ohio law applies to this particular libel.

Mr. Lyon: This is not a libel. Mr. Hoppe assumes that, but it is far from a libel. That's a label that Mr. Hoppe puts on this case. But it is a pure and simple case of unfair competition, of which your Honor has many. Mr. Hoppe [24] calls it a libel because he can't prove bad faith. We are not willing to concede that because he does call it a libel that that means that he can now proceed to establish what the suit cost Kemart. It's the same kind of an unfair competition case, I think, that was alleged before your Honor in the Wright-Hall fiasco that has been going on for so many years.

The Court: There is no libel pleaded, is there, Mr. Hoppe?

Mr. Hoppe: Yes, your Honor. It is alleged that the charge was made and the charge was made and the charge was false.

The Court: It's claimed to be unfair competition.

Mr. Hoppe: The Court of Appeals indicated that it was a libel case. They said we are claiming damages for libel in the decision, your Honor, the very first paragraph of the decision.

The Court: Is it a separate cause of action?

Mr. Hoppe: No, it's all mixed up in the same ball of wax, your Honor.

The Court: How would the court have jurisdiction of it? Is there diversity of citizenship?

(Testimony of Frank P. Adams.)

Mr. Hoppe: There is diversity of citizenship, your Honor. And the amount involved is more than $3000. We must, of course, prove that.

The Court: I will overrule the objection and hear the [25] evidence. You may have two causes of action in one.

Mr. Hoppe: It may also be unfair competition, your Honor. But in Ohio they say this type of a charge is a libel and a slander.

The Court: Libel of title?

Mr. Hoppe: No. Libel per se, your Honor, in Ohio.

The Court: Libel of the title to the patent?

Mr. Hoppe: Business libel.

The Court: Disparagement of contract?

Mr. Hoppe: Yes. It says that as soon as somebody says that nobody is going to want to deal with you and it's about as bad a libel as you can have.

The Court: In other words, if you walk up to a businessman and say, "you are infringing my patent," is that a slander?

Mr. Hoppe: That's a libel in Ohio, your Honor.

The Court: Oral slander.

Mr. Hoppe: If it is oral it would be a slander and if it is in writing it would be a libel. And this was in writing, the publication of a writing is discussing it with the people at the convention.

The Court: Very well.

Mr. Lyon: I do not agree, of course.

The Court: We had that discussion at some length before.

(Testimony of Frank P. Adams.)

Mr. Lyon: I thought you had already ruled on most of [26] these matters that Mr. Hoppe is bringing up. It seems to me that he is rearguing legal points that you have decided already. My understanding was that he——

The Court: Well, let's get the evidence and then we will thrash out the legal questions.

Mr. Hoppe: Would you repeat the question to Mr. Adams, please?

The Court: Wasn't it about how much it did cost to defend this case?

Mr. Hoppe: Yes.

The Court: Just approximately.

The Witness: About $35,000.

The Court: Is that attorneys' fees and costs?

The Witness: It includes that. That would be the net cost after what we got back on return of the court costs.

Q. (By Mr. Hoppe): That is attorneys' fees, expenses of experts—— A. Yes.

Q. ——costs of printing?

A. We traveled down here to do it. Printing costs. And some of it, of course, was allowed as returnable costs. But that figure of $35,000 is the net out-of-pocket after what came back.

Q. What, if anything, Mr. Adams, during the period between the time of the publication on October 7, 1948, and the [27] entry of the final decree on the infringement question here did Kemart do in an effort to litigate damages, if it did anything?

A. Well, we did a great deal. It consisted of

(Testimony of Frank P. Adams.)

talks and letter writing, primarily to our licensees, to endeavor to reassure them that we were trying to protect our business from destruction. Naturally, we had people that wanted to cancel the licenses. We attempted to persuade them against that. And it was pretty much a question of who they'd believe. If they believed us they would go on as though no threats had been made. If they believed the other side, why, we lost the business. And it was not only a matter of keeping what we had in terms of licenses, which were subject to cancellation on notice anyway—I think for a while it was 30 days and later 60 days notice—but it was the problem of going on to sell new accounts and to convince people they should do business with us and that they should not have any fears of claims but using the Fluorographic Process when they operated under what we taught them under the Kemart Process.

Mr. Lyon: Your Honor, I move that the answer be stricken in so far as it refers to "if they believed the other side." There is no evidence that I know of brought forth that proves Mr. Adams' customers generally were ever approached by the defendant in this action. As I understand it, there were three people to whom he referred, the people [28] that were at that Photoengravers convention, and I think but one, or possibly two of them, were customers. There is nothing established to the effect that Printing Arts Research was running to the customers of Kemart.

(Testimony of Frank P. Adams.)

So far as I know, from reading the old record, the first that the trade generally knew of this legal battle between the two companies was when Kemart Corporation—that is, Mr. Adams' company—put it in the newspapers when they filed the suit that we are still engaged in here.

But back to my basic objection, I don't think it is proper for him to testify as to his customers' believing the other side when it has not been established that they had ever been approached by the other side.

So I move to strike that portion of the answer.

Mr. Hoppe: What do you mean? Just whether they believed the other side?

I would agree that that language should be stricken, whether they believed the other side.

The Court: Very well. The motion is granted.

Q. (By Mr. Hoppe): Did you do anything after the judgment was entered against you in the first instance to endeavor to mitigate damages, Mr. Adams? A. Yes. We informed——

Mr. Lyon: I object to the leading nature of these questions, your Honor. Every one has been posed with "what did [29] you do to mitigate damages?" I think he can arrive at it without pointing the way to Mr. Adams.

Q. (By Mr. Hoppe): Well, what else, if anything, Mr. Adams, did you do to reduce the impact of the charges of infringement?

A. Well, besides communications to individuals who were obviously interested or inquired, by way

(Testimony of Frank P. Adams.)

of telling them to ignore the threats and writing letters about that, we published——

Mr. Lyon: We make the same motion. Again we have this business of Mr. Adams assuming that the entire trade has been approached or threatened by Printing Arts Research Corporation. So far as I know only one or two persons ever heard of the fight as far as Printing Arts were concerned, and those were the people at the convention.

The Court: What do you mean by that, Mr. Adams? That you assumed or you were apprehensive that they might have heard of it, is that it?

The Witness: Well, sir, my reason for believing that in part——

The Court: It doesn't make any difference whether you believed it or not.

The Witness: Well, Mr. Flader and Mr. Mertle and Mr. Schmidt, to tell those people, and then all the people they would tell, and obviously tell. [30]

The Court: You were apprehensive that this talk would *go the* trade?

The Witness: Well, it developed that it had. We learned from people——

The Court: According to your understanding it did?

The Witness: You bet it did. It certainly did.

Mr. Hoppe: I will cover that.

Mr. Lyon: Well, I object to the hearsay.

The Court: That is his understanding.

Mr. Lyon: I see, your Honor. I think your Honor should know that by this time Mr. Adams

(Testimony of Frank P. Adams.)

had put the case in the newspaper, and I think that is——

The Court: Well, you may bring that out on cross examination.

Mr. Hoppe: I will now hand to the witness Plaintiff's Exhibits 61, 62, 64, 65, 66, 67, 68, 69, 70, 71, 72, and 73.

I will show these to counsel for the defendant first.

(Whereupon the documents were passed to counsel.)

The Court: Are the pleadings that we are proceeding upon in the transcript on appeal?

Mr. Hoppe: Yes, they are, your Honor.

The Court: There have been no supplemental pleadings?

Mr. Hoppe: No, your Honor.

The Court: We are proceeding on the original pleadings that were in vogue at least at the time of the trial. [31]

Mr. Hoppe: Yes, your Honor.

The Court: Now, your question to Mr. Adams?

Q. (By Mr. Hoppe): Mr. Adams, would you explain what those papers are that I now hand to you?

(Whereupon the documents referred to were handed to the witness.)

Q. (By Mr. Hoppe): Do so collectively, if you can.

A. Do you want me to identify them?

(Testimony of Frank P. Adams.)

Q. No. They are identified in the record, Mr. Adams.

The Court: In general, tell us what they consist of.

Q. (By Mr. Hoppe): Just generally what they consist of.

A. They represent letters that were written to Kemart in late '48 and in early '49—some of them go to July '49—expressing concern over this question of whether or not what they were doing or contemplating to do in reference to Kemart would be regarded as infringing Fluorographic; and they were expressing concern over threats of suit.

Mr. Hoppe: May I have those, Mr. Adams?

(Whereupon the documents were handed to counsel.)

Mr. Hoppe: Your Honor, may I read just a few excerpts of these letters? It will take me about five minutes to do so. And then your Honor will not have to do so.

The Court: What is the record of appeal on this case?

Mr. Hoppe: There are several records. One is 12948.

Mr. Lyon: The last one was 14299, concerned [32] with the mandate as the result of that appeal.

Mr. Hoppe: One is 13601 and one is 14299.

The Court: Three sets of records? Well, which is the one that contains the record on the trial, and the pleadings?

Mr. Hoppe: 12948.

(Testimony of Frank P. Adams.)

Now, your Honor, plaintiff's Exhibit 61 for identification is a letter from the Harold M. Pitman Company to Kemart Corporation.

The Court: Mr. Hoppe, if you wish I will take those and read them over the adjournment. Unless there is something particular you wish to call my attention to.

Mr. Hoppe: I just wanted to call your attention to one paragraph of each letter. But if your Honor would prefer to read them——

The Court: I will read them and then you may cover it in argument.

Mr. Clerk, may I have them?

(Whereupon the documents referred to were handed to the court.)

Q. (By Mr. Hoppe): Now, Kemart Corporation received these letters, Mr. Adams?

A. Yes.

Mr. Hoppe: We offer in evidence the exhibits which I have just identified.

Mr. Lyon: Objection, your Honor. There is no [33] materiality whatsoever shown for them. They are unauthenticated, and if they are entered as material to show that the things that the letters purport, say happened, did happen, why, they are simply nothing but hearsay.

Mr. Hoppe: Your Honor, this objection has been made time and time again where there have been letters that have come in from the trade in response to charges of one kind or another and the Supreme Court——

(Testimony of Frank P. Adams.)

The Court: You are offering them for the oral facts, are you?

Mr. Hoppe: No, I am not offering them as proof of the fact——

The Court: But as proof of the fact that they were written, is that it?

Mr. Hoppe: And showing the effect of the acts of Printing Arts Research Laboratories; just to show the effect.

Mr. Lyon: I think that makes them hearsay. The fact that they were written is of course not hearsay and I don't object on that ground.

Mr. Hoppe: Would your Honor like to hear me on that? I am prepared with chapter and verse showing that those are admissible in evidence as an exception to the hearsay rule, your Honor.

Mr. Lyon: Your Honor, may I make my position further clear? Aside from the hearsay rule, [34] there is simply not one iota of evidence that establishes that those people with the possible exception of the ones we have mentioned, were ever approached in any way by any representatives of the defendant Printing Arts Research Laboratories.

The Court: Is this a full-page advertisement? It is in evidence, is it not? The full-page advertisement referred to as having appeared in the May issue of the Photoengravers Bulletin. That is here, isn't it? Not among these, but it is in evidence here?

Mr. Hoppe: Yes, it is.

(Testimony of Frank P. Adams.)

The Court: Suppose you offer that. It seems to me that becomes——

Mr. Hoppe: I had figured, your Honor, that since that is not hearsay that that comes within your Honor's ruling that that is before the court on this hearing.

Mr. Lyon: Yes, I agree that it is before you. But the point is, your Honor, that advertisement was subsequent to an advertisement in the same publication which was published by the plaintiff Kemart people. That was in answer to their publicity which they released in the same publication when they filed this suit. And so I propose that there is nothing at all here by way of proof that these people who seem to have had trepidations about using the Kemart process received their trepidations from the Kemart people themselves from their earlier advertisement. [35]

The Court: That may go to the weight of it rather than the admissibility.

Mr. Lyon: You think it doesn't go to the admissibility?

The Court: The objection will be overruled and Exhibits 61, 62, 64, 65, 66, 67, 68, 69, 70, 71, 72, and 73 are received in evidence.

(The documents referred to were marked Plaintiff's Exhibits Nos. 61, 62, 64, 65, 66, 67, 68, 69, 70, 71, 72, and 73 and received in evidence.)

[See pages 268-282.]

Mr. Hoppe: Now, Mr. Adams, you will recall

(Testimony of Frank P. Adams.)

that in 1951 there was a judgment of infringement entered against Kemart Corporation in this case. Do you recall that?

A. Yes. I don't know the date.

Q. What did you do after that judgment was entered against you in relationship to the question of infringement, if anything?

A. Well, I sent a letter to our licensees about it, and——

Q. Outside of correspondence what did you do?

A. There was that mimeographed letter to our licensees.

Q. Well, did you do anything to try to comply with the court's order?

A. Oh, yes. That, I think, is when we made these studies and worked on the development of a blue light system to endeavor to carry out our business [36] and still comply with the court's order. It was a question of interpreting the extent of the order and how we could comply with it and still operate our Kemart process.

Q. Would you describe the nature of what you did and the expense of it?

A. We felt that——

Q. What did you do?

A. We endeavored first to find types of colored light transmitting filters which would transmit a light to irradiate our fluorescent areas in our copy which would excite them sufficiently to generate the fluorescence we needed to make the process work and still would not be ultraviolet light as

(Testimony of Frank P. Adams.)

defined in the order. That meant in practice that we evolved what we called a blue light, and it contained some ultraviolet and also some visible blue, and because of that mixture it was not ultraviolet light only.

To do that we had expenses of research and development. Mr. Berry in the company for a period there didn't do much of anything else. At that time we employed Mr. Hoppe to handle the matter and appear before this court by way of a petition for a—well, it would be, I guess, a definition of whether or not this thing we had developed as an alternate would qualify and would or would not come within the terms of the enjoined practices.

The Court: There was a motion made at that time. [37]

Mr. Hoppe: Yes, there was, your Honor.

The Witness: And it was preliminary to that motion that we sought that avenue of compliance and in a way that was consistent with our staying in business, which was a hazard at that time.

Q. (By Mr. Hoppe): Now, without limiting either the defendant or the plaintiff to proof of the actual cost of that, what is an estimate of the cost of that particular effort on your part?

A. I'd say about $10,000.

Q. Now, Mr. Adams, have you studied the sales figures and the cancellation figures of new sales of Kemart licensees and cancellations of existing licenses during the period from the beginning of the

(Testimony of Frank P. Adams.)

organization of Kemart Corporation until the present time? A. I have.

Q. And without being specific in your figures what, if anything, did you note with respect to the cancellations with respect to the period up to October 7, 1948, the period between October 7, 1948, and January of 1953 when you were cleared of the charge of infringement, and the period from January 1953 to the present date?

A. That would be three periods.

Q. Three periods.

A. Well, in the second period our cancellations [38] were substantially at a higher rate than they were before that and after that.

Q. Do you know Mr. Frey?

A. There is a Mr. Frey who works for Printing Arts Research.

Q. Who is he?

A. His name is Ed Frey. I think he lives in Kansas City. He travels the eastern and central parts of the country in selling and representing Printing Arts Research Laboratories as a salesman. And I see him each year at the Photoengravers Convention.

Q. Have you discussed with Mr. Frey the question of the Printing Arts Research sales of Fluorographic licenses and your competitive sale of Kemart licenses? A. Yes, I have.

Q. During the course of those discussions do you recall whether or not the question of patent infringement came up?

(Testimony of Frank P. Adams.)

A. Yes. I particularly remember——

Mr. Lyon: Well——

Mr. Hoppe: This is just a preliminary question.

Mr. Lyon: ——I object and ask that a better foundation be laid. If you are going to ask him what came up I want to know when and where and who was present.

Mr. Hoppe: That is what we are coming to next, counsel.

Q. What is your answer? [39]

A. I particularly recall an occasion at the time of the Boston convention, which would be about—it's always the 7th, 8th or 9th of October—and that was in 1954. And we were both there as usual.

Q. Who else was there?

A. Well, at the time I had this discussion with Mr. Frey no one else, just the two of us. We met in the hall, or something. We always did. And we always stopped and talked.

Q. What did Mr. Frey say to you and what did you say to him concerning the questions of patent infringement?

A. Well, at that time he was—I guess taunting me would be the word—that one of our representatives had been in Miami and just about sold an account there and had left the papers to be sent back, and that he had arrived there just afterwards and he prevented it, and he stated he told them if they took Kemart, why, they were going to be sued.

Q. And this was on what date?

(Testimony of Frank P. Adams.)

A. He told me this in October of 1954.

Q. And that is after the judgment of non-infringement was entered in this court after the Court of Appeals mandate, is that correct?

A. I don't——

Q. That was in 1953.

A. Yes, it would be. I don't remember the date of that. [40]

Mr. Lyon: Now, I object to the hearsay nature of this testimony if it is to be proof that Frey actually approached those people and said what you said he said. I don't think it is competent since we haven't an opportunity to cross examine anybody in connection with what actually went on between Mr. Frey and the alleged potential Kemart customer.

Mr. Hoppe: May it please the court, that is an exception to the hearsay rule. It is an admission against interest. Mr. Frey was an employee of Printing Arts Research Laboratories at the time the charge was made—I mean, at the time this conversation took place. Since it is a conversation of the principal, one of the principals was there, clearly it's an exception to the hearsay rule.

Mr. Lyon: I am not satisfied it was shown that Mr. Frey was acting for Printing Arts Research Laboratories when he got into this casual conversation with Mr. Adams. I don't see that he was in the scope of this authority to bind Printing Arts Research Laboratories to an admission against interest.

(Testimony of Frank P. Adams.)

The Court: What is his capacity?

Mr. Hoppe: Mr. Adams testified he was a salesman for Printing Arts Research at the time.

The Witness: He was in charge of their exhibit booth at that Boston convention.

Mr. Lyon: Your Honor, he certainly wasn't [41] trying to sell anything to Mr. Adams. When he was talking to Mr. Adams I think it is purely a discussion outside of his scope of authority. It's just one of these typical jawing sessions. He wasn't working for PAR.

The Court: What does the record show about his connection generally? Was he a commissioned salesman? Was he a full-time employee?

Mr. Hoppe: Well, Mr. Adams testified that he ran into Mr. Frey at all of the conventions. And he also testified that Mr. Frey was in charge of the Printing Arts Research Laboratories booth at one of these conventions. Also, that he was a salesman for Printing Arts Research Laboratories.

Now, since this was something said in the course of selling an account it certainly was within—he admitted it was in the course of selling the account so it certainly is an admission against interest of Research Printing Arts Research Laboratories. Because he was a salesman the admission made would be an admission of what he said right in the course of doing his business. I can't see how it could be anything but an admission against interest of Printing Arts Research Laboratories.

Mr. Lyon: My understanding of the statement

(Testimony of Frank P. Adams.)

at issue is that the statement made to Mr. Adams when Mr. Frey was Printing Arts Research Laboratories salesman, the statement itself made to Mr. Adams that is supposed to be an admission [42] against interest chargeable to Printing Arts Research, my point is that statement to Mr. Adams certainly wasn't in the scope of Mr. Frey's employment. He was not trying to sell Mr. Adams anything. Kemart and Printing Arts Research are serious competitors. If the statement had been made in the course of selling discussions with a potential customer of one or the other whom Frey was trying to sell Printing Arts Research material I would agree it would be a statement against interest and chargeable to the defendant corporation. But this was idle gossip with Mr. Adams. Frey wasn't trying to sell him anything. He wasn't doing a thing for Printing Arts Research during any such conversation. The conversation was entirely extracurricular.

The Court: The objection will be overruled. The answer may stand.

Did he tell you as of when this incident occurred? Did Frey say when this incident happened down in Florida?

The Witness: No, your Honor.

The Court: You don't know whether it happened in 1952 or——

The Witness: I honestly don't know the date.

Mr. Hoppe: Your Honor, to me, in argument, the effect I want to make about it is that it is at

(Testimony of Frank P. Adams.)
least indicative of malice on the part of the Printing Arts toward Kemart Corporation even after the infringement issue was settled. I don't [43] intend to go into damages after the infringement issue was settled.

The Court: Does it help us any on that? Because, for all we know, what Frey was telling Mr. Adams may have happened in 1951.

Mr. Hoppe: It would show malice as of that date, your Honor, using the charge of infringement to get business away from us. Regardless of when it was made it would be evidence showing malice, if malice is important in this case. At least I will so argue.

The Court: I have your position.

Q. (By Mr. Hoppe): Mr. Adams, in addition to the defense of the lawsuit and your blue light matter and this mimeographed sheet, I believe that the—and you correct me in this, Mr. Lyon—record shows that in December of 1948 you published a story in the Photoengravers Journal, or Bulletin, is that correct?

A. Yes. It was an advertisement. But I did send to the editor of that magazine a copy of the communication I had sent to my licensees. I think that is the one that happened that day. And I asked him if he would publish it.

Q. Do you know of any statements which are untrue in that publication?

A. No, certainly not.

The Court: Is that in evidence here? [44]

(Testimony of Frank P. Adams.)

Mr. Hoppe: I think that is in evidence. They referred to it in the appeal. I believe that is in evidence.

Mr. Lyons: Yes, I believe it is, your Honor.

The Court: Do you have an extra copy of the volume of the record on appeal which contains the pleadings in this matter?

Mr. Lyon: I can certainly hand you mine, your Honor.

The Court: Well, I don't wish to take yours. I will use whatever the clerk has.

Mr. Lyon: I don't have them.

Mr. Hoppe: I just have this work copy, your Honor. It is all dog-eared.

The Court: Never mind. I will just use the clerk's. I thought if you had an extra copy of the pleadings it might be convenient.

Mr. Lyon: Do you have a book of the exhibits in that appeal?

The Court: No, I don't believe so. Was there a printed list of exhibits?

Mr. Lyon: Yes, sir. The exhibit to which counsel refers, that is, the publication by Photoengravers induced by Mr. Adams is Defendant's Exhibit NN to the original trial, and that is in the record at 108 to 110.

Mr. Hoppe: May it please the Court, I object to the characterization that it was induced by Mr. Adams. [45] Mr. Adams' publication took place in December 1948. The Printing Arts Research publication took place in May 1949. This wasn't

(Testimony of Frank P. Adams.)

a spontaneous thing that came along. This was a well-thought-out republication——

The Court: Well, we will reserve the argument. Let's get the evidence in first, gentlemen.

Mr. Hoppe: Now, Mr. Clerk, would you please give Mr. Adams Plaintiff's Exhibit 74 for identification?

(Whereupon the document was placed before the witness.)

The Court: Proceed.

Q. (By Mr. Hoppe): Would you state what Plaintiff's Exhibit 74 for identification is, Mr. Adams?

A. There are two pages. The first is the title page of the Photoengravers Bulletin. And then the second one is a photostat of an ad that appeared there run by Printing Arts Research Laboratories.

Q. Did you see the original of that?

A. Yes, I did, when it was printed, sir. June 1950 is the date of the bulletin.

Q. Did that appear in other publications, if you know?

A. Yes. I think that appeared almost concurrently in the National Lithographer, which is the equivalent trade journal for the lithographers that this is to the photoengravers.

Mr. Lyon: May I ask a question? I want to [46] ascertain from counsel if he is discussing the advertisement in the news release that was Plaintiff's Exhibit 34 in the original case, May 1949.

(Testimony of Frank P. Adams.)

The Witness: It is marked 74. June 1950, Mr. Lyon.

Mr. Lyon: This is a new exhibit that hasn't been before the court?

Mr. Hoppe: That is correct. This plaintiff's exhibit just identified is a publication which——

The Court: Has Mr. Lyon seen it?

Mr. Hoppe: Yes, you saw that earlier when we marked it, Mr. Lyon.

Mr. Lyon: I am sorry. I can't keep in my mind the number of these exhibits just from a short glance at them.

Mr. Hoppe: I now hand to the witness Plaintiff's Exhibit 75, which is a letter dated September 8, 1950, from the Bee Engraving Company to Mr. Adams.

(Whereupon the document was placed before the witness.)

Mr. Lyon: Is that being offered?

Mr. Hoppe: It is just being handed to the witness.

Mr. Lyon: It has not been offered?

Mr. Hoppe: It hasn't been identified, sir.

Q. Will you please identify that document which was just handed to you, Mr. Adams?

A. This is a letter addressed to me dated September 8, 1950, from Ralph A. Van Camp, manager, Bee Engraving Company, [47] Sacramento, California, and marked Exhibit 75.

Q. Can you explain to us the matter concerning which that letter refers?

(Testimony of Frank P. Adams.)

A. Well, it refers to our attempts to sell them a Kemart license and their declination to go ahead and use our equipment or our processes until the finality of the suit that we have here.

Q. And what materialized after that letter was received by Kemart Corporation?

A. Well, they just wouldn't go ahead for a while. We continued to persuade them something ought to be done about it; and I finally, in talking to their attorney, agreed to a rather unusual plan in that they would put into a savings account the amount that would be our normal royalty and if we won the case then we'd get the money and if the other side won, why, he would keep it. And I pointed out to them that as long as our price of $50 a month was higher than what he would have to pay for Fluorographic, that as long as he decided at a later date who got the money he couldn't possibly lose out of it. And that seemed to convince him. And I guess it was six or seven months later we finally went ahead on that basis.

Mr. Hoppe: Would you please hand Plaintiff's Exhibit 76 to Mr. Adams?

(Whereupon the document was placed before the witness.)

Q. (By Mr. Hoppe): What is Plaintiff's [48] Exhibit 76 for identification, Mr. Adams?

A. This is a summary by months and years beginning with June 1947 and going up to July 1956 of the sale of Kemart licenses and cancellations,

(Testimony of Frank P. Adams.)

and sort of a history of what was done in reference to it.

Do you want me to identify it by columns?

Q. Yes, if you would.

A. This is gathered up by studying the files of Kemart, which I have done and supervised, and from that we know the date of a license and then we can divide them into licenses that stayed and licenses that cancelled. And the first column is headed "Current Licenses Granted." And by that we mean that these are licenses granted which we still have.

The next column is "Cancelled Licenses Granted." And by that I mean that those are licenses we sold and they later cancelled.

And then the next is "Total Licenses Granted," which would be a total of these first two columns.

And then the fourth column is "Licenses Cancelled." And the fifth column is "Total Licenses in Force." And the sixth column is "Percentage of Cancellations."

And then there are a series of figures. For example, in December of 1947 we sold one which didn't cancel, and that left us six. And in that month we sold one that did cancel and that left us 10 that had cancelled. And that would be a [49] total of two sold and 16 cancelled.

Q. Now, then what is the fourth column, "Licenses Cancelled"?

A. "Licenses Cancelled." And there are two figures in that column. All of these, excepting the

(Testimony of Frank P. Adams.)

sixth one, have two columns within each major column, your Honor.

Q. Now, in the "Cancelled Licenses Granted," like on June 1, 1947, you have one current license granted—— A. Yes.

Q. ——one cancelled license granted, and in "Total Licenses Granted" you have two. And what is the second 2?

A. Well, the second 2 would be an accumulation.

Q. That is a running total?

A. Running total, yes.

Q. What is the "Total Licenses in Force" column?

A. That would be what we had left after the cancellations.

Q. When was your first license cancellation?

A. That would be June of 1947. No, that would be August. Yes, August. That would be August of 1947. That would be in the fourth column of "Licenses Cancelled."

Q. And all of your licenses cancelled, then, are in Column 4, as I understand it.

A. Yes. One cancelled in August of 1947 and the next was cancelled in June of 1948. [50]

Q. Then all you have to do is read down the volume and you get the picture of your business as of that time?

A. In Column 4 we get a picture of cancellations.

Q. And then the recap on the last page——

(Testimony of Frank P. Adams.)

Mr. Hoppe: And this isn't testimony, your Honor. This is just to recap it.

Q. ——shows that during the lifetime of Kemart up to July you issued 291 licenses, and 108 are still in effect and 183 have cancelled. Is that correct?

A. That's right. That is what these figures show.

Mr. Hoppe: We offer in evidence Plaintiff's Exhibits 60 to 78—I beg your pardon—60 to 76, both inclusive.

The Court: Well, most of those have been received, all except Exhibits 60 and 74, 75 and 76. Is that correct, Mr. Clerk?

The Clerk: I have 61, 62, 64, 65, 66, 67, 68, 69, 70, 71, 72, and 73.

The Court: Is there a 63?

The Clerk: For identification.

The Court: Is it in evidence?

The Clerk: No, your Honor.

Mr. Hoppe: We offer Plaintiff's Exhibit 63 in evidence.

The Court: Is there an objection?

Mr. Lyon: My understanding, sir, was that Exhibits 60 through 73 were admitted, over objection. [51]

The Court: It did not include 60 and 63, Mr. Lyon, apparently.

Mr. Lyon: I guess not.

The Court: Do you make the same objection to these?

Mr. Lyon: I don't object to 74, no.

(Testimony of Frank P. Adams.)

The Court: Received in evidence.

(The document referred to was marked Plaintiff's Exhibit No. 74 and received in evidence.)

[See page 282.]

Mr. Hoppe: And 75?

Mr. Lyon: Just a minute.

The Court: The letter to the Bee Engraving Company.

Mr. Lyon: Yes, I make the same objection to 75 on the ground that we have no way of knowing whether any of the defendant's men ever approached that customer. And that letter is unauthenticated hearsay. And I object to Exhibit 76 on the ground that this is an *improper to* go into the details as to a compilation of what Mr. Adams might believe his damages amounted to.

The Court: The objection to Exhibit No. 76 for identification is sustained at this time. The testimony of the witness as to what it shows seems to me to be sufficient for the present purposes.

Mr. Hoppe: All right.

The Court: The objections to Exhibits 60 and 63 and 74 are overruled and those exhibits are now received in evidence. [52]

(The documents referred to were marked Plaintiff's Exhibits Nos. 60, 63 and 74 and received in evidence.)

[See Exhibit 60, page 265; Exhibit 63, page 270; Exhibit 74, page 282.]

Mr. Hoppe: You may cross examine, counsel.

(Testimony of Frank P. Adams.)

Mr. Lyon: Your Honor, it is now 5:00 o'clock.

The Court: Yes. I would like to take an adjournment at this time.

Is that matter on for 9:30 tomorrow morning, Mr. Clerk?

The Clerk: 10:00 o'clock.

The Court: There is a pretrial hearing scheduled for tomorrow morning in a condemnation case, gentlemen. I don't know how long it will last.

Mr. Hoppe: We will be here anyway, your Honor, and await your pleasure.

The Court: Well, if you would like to come at 10:00 it might not last over 15 or 20 minutes. I don't know the situation. There are some out-of-town counsel involved in it.

Mr. Lyon: I have no particular desire to come at 10:00 unless it is for the court's convenience and Mr. Hoppe's.

The Court: I would like to go ahead with it as soon as we can.

Mr. Lyon: Whatever you prefer, sir, and Mr. Hoppe.

Mr. Hoppe: 10:00 o'clock will be fine for us, your Honor.

The Court: This hearing might run on for an hour. I don't know. Perhaps you gentlemen could accomplish something while you are waiting. [53]

Mr. Hoppe: Maybe we can.

The Court: Perhaps you can agree to some exhibits and shorten it somewhat.

Mr. Lyon: May I ask if we are going ahead and conclude this matter tomorrow?

Mr. Hoppe: It will only take me another hour.

The Court: How long will it take you, Mr. Lyon?

Mr. Lyon: I don't know yet, but I don't think it is going to take me very long.

The Court: Perhaps we might take a recess untill 11:00 o'clock tomorrow morning, if you think you could finish by noon.

Mr. Lyon: I may have some rebuttal.

The Court: Suppose you come at 10:30. You may have other matters you want to take care of. We will try to finish with the evidence by noon.

Mr. Hoppe: Thank you, your Honor.

Mr. Lyon: Thank you, your Honor.

(Whereupon a recess was taken until 10:30 o'clock a.m. of the following day, July 24, 1956.) [54]

July 24, 1956; 11:10 O'Clock A.M.

The Court: In the Kemart case, gentlemen, are you ready to proceed?

Mr. Hoppe: Ready, your Honor, for the plaintiff.

We asked the marshal to lock some exhibits up in the little locked room here, and I would like to get some of them out.

Mr. Lyon: May I have Mr. Marx sit at the counsel table?

The Court: Yes.

Gentlemen, again I should outline my calendar

situation. It's rather awkward. You can have the rest of this morning, and then we can begin at 1:30, if you like, and go to 2:30. Then, if you don't finish taking the evidence, we will have to continue it to Thursday.

Is there a possibility of the case going on trial tomorrow morning, Mr. Clerk?

The Clerk: Yes, I think so, your Honor.

The Court: There is an estimated one-day case that goes on trial tomorrow morning. Of course, there is a possibility that something might happen to it.

Mr. Hoppe: I would just as soon stay over to get this matter cleared up. But I think we may be able to finish this afternoon and have argument on Thursday.

The Court: I thought, if there was a possibility [57] that you might make haste, we could at least excuse the witnesses so that they can go home.

Mr. Hoppe: We will certainly try, your Honor.

Mr. Lyon: Your Honor, the name of Frey, one of Printing Arts' salesmen, was brought into the case yesterday afternoon, and we reached Mr. Frey last night. He was in the East. Of course, he can't be here today, but we think we can have him here by Thursday.

If you will recall, Mr. Frey was the gentleman who was represented to say certain things.

The Court: Very well. If there is no objection, then, we will just proceed and see if we can dispose of at least some of the witnesses.

Mr. Hoppe: I think we can get quite a bit of ground behind us just today.

Mr. Adams, would you please resume the stand.

FRANK P. ADAMS

called as a witness on behalf of the plaintiff, having been previously duly sworn, resumed the stand and testified further as follows:

Mr. Hoppe: May it please the court, yesterday at the close of the hearing I had released Mr. Adams from direct examination, and upon review last night I found that there were just four short matters that I had overlooked, and I would like [58] to go into them at this time.

The Court: You may.

Direct Examination—(Continued)

Q. (By Mr. Hoppe): Mr. Adams, going over your testimony last night, do you recollect that you mentioned the date of the publication of Mr. Flader's book in your testimony yesterday?

A. I do.

Q. Do you wish to correct that testimony?

A. Yes. That book was published in '48, and it was published prior to the time that I was at the Photoengravers Convention in October 1948.

Q. And your testimony yesterday was that it was published after?

A. I was mistaken in that. I looked at the book, and it was earlier.

Q. Now, in reviewing your testimony given at the earlier hearing several years ago, Mr. Adams,

(Testimony of Frank P. Adams.)

do you recall your testimony to the effect that your reversal in sales curve took place immediately after the March 1949 publication?

A. Yes. I checked up on that further. The reversal occurred in mid-1950 and not in '49. It was diminished, I think, relative to what it would have been in '49. But the actual turndown in net results didn't occur until the middle of 1950. [59]

Q. Now, one other matter, Mr. Adams, and that is with respect to the publications that have been received in evidence, which are the May 1949 publication of Printing Arts Research and the June 1950 publication of Printing Arts Research. Have you seen re-publications of those items?

A. Yes. There is one that occurs to me, and it was the—a memorandum or advisory opinion commented on in the ANPA Research Bulletin. That's the American Newspaper Publishers Association. They put out a periodic bulletin, and it was sent only to members. And that matter came up in reference to the Sacramento Bee.

Q. Do you have that publication, Mr. Adams?

A. I don't have it. Not being a member, I couldn't get it. I borrowed it in, oh, it was the late summer of 1950, I recall, because I heard about it in a phone conversation with the counsel for the Sacramento Bee. And with his permission, he mailed it to me, and I read it and returned it to him.

I tried this morning to find copies with the Los Angeles Times and the Los Angeles Examiner, and

(Testimony of Frank P. Adams.)

they informed me that didn't have any. I couldn't find the old copy.

Q. Can you state the nature of the publication that you saw and read, as you testified?

A. Yes. It was a quotation—— [60]

Mr. Lyon: Your Honor——

A. (Continuing): ——in the ANPA Research Bulletin.

Mr. Hoppe: Just a minute, Mr. Adams.

The Witness: I am sorry.

Mr. Lyon: I would like to interpose an objection. I think if the question is directed toward the contents of the publication, I think the publication itself is the best evidence of what it says. I don't think there has been sufficient showing that the original or at least a secondary copy of it is unavailable.

Mr. Hoppe: Your Honor, we tried to find a copy of the publication locally. It's a type of thing that people don't keep. It's just a periodical publication, apparently. And I had Mr. Adams this morning phone the likely sources in town here to see if it was available here.

The Court: Wouldn't it probably be in the library?

Mr. Hoppe: Well, your Honor, we are going to try some more to find it before Thursday, but with leave to prove the contents by secondary evidence, I would like to do so, and if we can find the original I would like to put the original in. I per-

(Testimony of Frank P. Adams.)

sonally will search for the original because I believe it rather pertinent.

Mr. Lyon: Your Honor, the witness testified he got an original from the Sacramento Bee. I don't know why he can't go back and get what he originally saw. He may not be able [61] to get it, I understand that, but——

The Court: I will receive the secondary evidence, subject to a motion to strike.

Q. (By Mr. Hoppe): Would you please state the contents of the publication, Mr. Adams, as you recollect it?

A. Yes. The publication is mailed only to members of ANPA, and the Bee is a member.

Q. Would you state the contents of the publication?

A. There was a reference to an article in the Photoengravers Bulletin concerning the statement that Printing Arts Research had made about the litigation, and it advised member newspapers that anybody taking the Kemart license would be subject to suit by Printing Arts Research Laboratories.

Mr. Hoppe: That is all.

You may cross examine, Mr. Lyon.

Cross Examination

Q. (By Mr. Lyon): Mr. Adams, Mr. Flader's book—what was that?

A. It's a book entitled "Modern Photoengraving," and it's about an inch thick and about a letter-size page. And he and Joe Mertle published it.

(Testimony of Frank P. Adams.)

Mr. Hoppe: I have just handed counsel a copy of the book in question. [62]

Mr. Lyon: May I confer with counsel, your Honor?

The Court: Yes.

(Whereupon a discussion was had between counsel.)

Q. (By Mr. Lyon): Now, Mr. Adams, you have previously testified that Messrs. Schmidt, Flader, and Mertle had told you about seeing a copy of the letter from Mr. McCaleb to you at the Cleveland convention, is that correct? A. Yes.

Q. And you yourself personally talked to these men? A. Yes.

Q. Now, which one did you see first?

A. I don't remember that. They were there. I saw each of them several times during the three days of the convention. This letter from Mr. McCaleb was shown to me shortly before lunch on the first day, and I had lunch right afterwards with Joe Mertle, but not with the other two. So that would mean I heard from him first. I don't know.

Q. Did you see Mr. Mertle more than once at the convention?

A. Yes, several times each day.

Q. Do you know at which one of those meetings that he stated this matter to you?

A. No; except it wouldn't be the first one, because I remember I told him what had happened then.

(Testimony of Frank P. Adams.)

Q. You told Mr. Mertle about it? [63]

A. At lunch, which was within an hour after I had seen the letter.

Q. But before Mr. Mertle stated that he'd seen it? A. That's right.

Q. And later he told you that he had seen it?

A. Yes. He told me that Mr. Marx had shown it to him.

Q. But that was at some later meeting?

A. Yes.

Q. I see. Now, with reference to Mr. Schmidt, do you recall how often you saw Mr. Schmidt at the meeting?

A. No. He was there. I mean, there were five or six hundred people. I would see him off and on.

Q. Do you recall, to your best recollection, if you saw him reasonably shortly after Mr. Marx had delivered the letter, Exhibit 29, to you?

A. That was a long while ago, and I honestly don't remember. I do remember that he told me he had seen the letter, and Mr. Marx had shown it to him. And he sought me out to tell me that.

Q. Do you recall whether or not the meeting with Mr. Schmidt, at which he told you he had seen the letter, was the first meeting you had with him since you saw the letter?

A. I don't recall.

Q. You don't recall? It may have been after you'd seen him before? [64]

A. I don't think I understand.

Q. At the time at which he told you he'd seen

(Testimony of Frank P. Adams.)

the letter, it might have been subsequent to a time at which you had seen him following your seeing the letter? A. Oh, yes.

Q. I see. Do you recall whether or not at any meeting with Mr. Schmidt before the meeting at which he told you he saw the letter, you mentioned the letter? A. I know I didn't to him.

Q. You know you didn't?

A. Yes. I feel quite sure of that.

Q. You don't recall, though, how many meetings you had with him, or whether you had meetings with him before he mentioned seeing the letter?

A. Well, "meetings with him" is sort of a broad term, because at the convention like that I might see him at the bar and have a drink.

Q. I think we all understand that.

A. It's at a convention, and you know how they are.

Q. Well, I think we all understand what I mean by "meetings." What I am trying to explore is the ability you have to remember exactly what transpired between you and Mr. Schmidt with respect to this letter.

Now, you told me, I think, that you don't remember if you saw Schmidt before the time you saw him when he mentioned the letter. [65] Is that right?

A. I am pretty sure that I at least waved to him or had a casual talk with him. The thing that sticks in my mind importantly is that he came to

(Testimony of Frank P. Adams.)

me and told me he had seen that letter. And that is something that is indelibly ingrained, because that was quite a shock. But the other occasions before would be so casual that that is why I wouldn't think of them. He may have come by as I was setting up the booth the night before and said "Hello."

Q. You don't remember what he said and what you said?

A. I remember what he said on that subject because it was such a shock to me.

Q. No. I mean at any earlier meetings that might have transpired between the time you saw the letter and the time he told you he'd seen the letter. You don't remember what transpired in any of those meetings that might have occurred?

A. I may not have even seen him between those times.

Q. Now, with respect to Mr. Flader, you recall talking to Mr. Flader after receiving the letter but before he'd told you he'd seen it?

A. No, I don't recall him before then.

Q. Is your present memory clear on whether you saw him or not?

A. I remember seeing him, and I remember him [66] telling me he'd seen the letter from Mr. Marx and asking me what I thought about it.

Q. I understand. But is your memory clear as to whether you saw him or didn't see him or talk to him or didn't talk to him before the time at which he told you he had seen the letter?

(Testimony of Frank P. Adams.)

A. I think I didn't. He is a very busy man. Unless there was some specific reason.

Q. I am just asking you whether you remember or not. I am not asking for your guess or your deductions as to——

A. I can't be certain, Mr. Lyon. I might have casually.

Q. You don't know?

A. I am certain there was nothing important discussed until something like that.

Q. All right. But you don't recall any discussions, or whether or not you had any of those previous discussions with him?

A. I don't recall any.

Q. And you don't recall whether or not you at some such previous discussion have mentioned the letter yourself, as you did in the case of Mr. Mertle?

A. I am sure I didn't with Mr. Flader. I wouldn't have wanted to tell anybody about that letter.

Q. I thought you told Mr. Mertle. [67]

A. I did. He was the one person I did tell, of the three. That is because I saw him about an hour afterwards at lunch.

Q. But the fact is, you just don't remember what you said to the other people or whether you met them or not, isn't that true?

A. I wouldn't say that is true at all. I feel quite to the contrary. I do remember, and I have so testified.

(Testimony of Frank P. Adams.)

Q. I don't think you gave me a chance to finish.

A. Oh, I'm sorry.

Q. I thought you testified that you don't presently recollect whether or not you saw Mr. Schmidt between the time of your seeing the letter and the time of his telling you that he had seen it.

A. I do not recall seeing him then. My recollection is that the first talk with him that is in my mind is when he asked me about this letter and told me he had seen it.

Q. Now, let's get back to my question. I am asking you if you recall whether or not you saw him in this interim period? A. No.

Q. And the same goes for Mr. Flader, isn't that right? This is your present recollection?

A. My present recollection—that's eight years, yes, almost eight years ago—is that I didn't have [68] any talks with Mr. Flader until that subject.

Q. Can you say from your present recollection positively that you did not see him until that time?

A. After eight years I can't say that positively, no.

Mr. Lyon: That is all I want to know about it.

Q. Does Mr. Flader have any connection with the Photoengravers Bulletin, Mr. Adams?

A. Presently?

Q. Well, excuse me. At the time of the convention at Cleveland?

A. Yes. I believe he was the editor of it.

Q. He was the editor of it? A. Yes.

(Testimony of Frank P. Adams.)

Q. Now, did you see Mr. Frey at the Cleveland convention?

A. I think not. I think just Mr. Marx and Mr. Pensinger were in the Fluorographic booth. If Mr. Frey was there, I didn't know him at that time.

Q. When did you first become acquainted with Mr. Frey?

A. Well, it would be at the first convention where I met him. That's the time I see him each year. I think I remember him very clearly at the Atlantic City convention in 1950. And he was at the San Francisco convention. I think that was 1949. I remember him there. But I don't remember seeing him at the Cleveland convention in 1948.

Q. What convention was it that you have testified to having talked with Mr. Frey about something occurring in Miami?

A. That was the Boston convention in 1954. These are all in October of each year.

Q. Who from Printing Arts Research was there? A. At the Boston convention?

Q. Yes.

A. Mr. Frey and Mr. Marx, that I recall.

Q. Was Mr. Marx with Mr. Frey when you talked with Mr. Frey? A. No.

Q. Where were you?

A. Oh, in the lobby of the hotel; not in his booth or in my booth.

Q. Was anybody present? A. No.

Q. Just you and Mr. Frey? A. Yes.

Q. How long did the conversation take?

(Testimony of Frank P. Adams.)

A. Ten minutes—if that. A few minutes. We just met in the hall and stopped and conversed and passed on.

Q. Now, who said "Hello" to whom first? What I am driving at is, who approached whom?

A. I can't think of that eight years ago. [70] Whenever I see him at a convention, we always say "Hello." Sometimes we stop to talk and sometimes we just wave.

Q. What were the subjects of conversation at this time?

A. Well, we always ask—at that time we asked, "How is your work doing?" or "How are your sales going?"—things of that sort.

Q. Anything else?

A. Well, you mean at a typical convention?

Q. No. I am talking about this specific meeting to which you testified yesterday.

A. No. I think that was about it. I asked him how things were going with him, and then he told me the things I quoted the other day, about that he got this Miami deal.

Q. You don't remember if he approached you or you approached him?

A. We met in the hall, Mr. Lyon, and it would be a kind of a meeting—we were both busy in our own booths—it would be the time that we'd get out of the elevator nearby or something like that. I don't think it can be defined on a basis as who approached who.

(Testimony of Frank P. Adams.)

Q. Do you recall how the subject of that Miami thing came up?

A. Yes. He volunteered it. He mentioned it.

Q. Were you kidding each other, as competitors [71] sometimes will? Is that how it came up? Or did he just deliver it cold?

A. He just told me about it, is my recollection. It certainly was not funny to me.

Q. Well, what confuses me about the thing is, why would he do such a thing? And that is why I am asking you how the subject came up. How was it introduced? I see no point to it.

A. Well, it was a taunt, as I interpreted it.

Q. He was kidding you then, or taunting you?

A. Well, if "kidding" can be said without jest. I didn't see the jest to it. It was a taunt. That is the better word.

Q. Now, what exactly did he say, Mr. Adams?

A. Well, that's some time ago. He stated that he got to this Miami engraving firm just in time; that they had the contracts to send in to Kemart, but he'd stopped that.

Q. Was that exactly what he said?

A. That is the best of my recollection. It isn't those exact words, but approximately that. That would be the essence of it.

Q. That he'd stopped that? A. Yes.

Q. And that's all he said to you?

A. That isn't all he said. [72]

Q. What else did he say?

A. He said he told them, if they went ahead

(Testimony of Frank P. Adams.)

and practiced the Kemart process, they would be sued by Printing Arts Research.

Q. Do you recall specifically that he stated that?

A. Yes.

Q. What else did he say?

A. That was about it.

Q. What did you say?

A. I told him that I thought that was hardly in order and that these things should be sold without reference to such comments.

Q. That is all you said?

A. That is my best recollection.

Mr. Lyon: Now, I'd like to refer you to Exhibit NN, you Honor. It's on page 108 of the transcript of record in the appeal, No. 14299. Do you have it before you, sir?

The Court: No, I do not. Do you wish to read it?

Mr. Lyon: May I read it to the witness, a part of it?

The Court: It's in evidence, is it?

Mr. Lyon: Yes, sir. It's Exhibit NN, and it's the——

The Court: That's the publication, is it not?

Mr. Lyon: Yes, sir. It's the publication by Kemart, the plaintiff, that immediately followed their suing Printing Arts Research. It also is a copy, in part, of the letter, [73] Exhibit 60, which went in yesterday——

The Court: Yes.

Mr. Lyon: ——that letter being the letter that Kemart sent to its various licensees.

(Testimony of Frank P. Adams.)

The Court: Very well. You may quote from it.

Mr. Lyon: The next to the last paragraph of the letter states: "We have proceeded in this manner to protect you from all liability by reason of your use of the processes licensed under the Kemart patents. May we ask that whatever comes to your attention, directly or indirectly, that may in any way affect this matter, or any communications or notices you may receive from Printing Arts Research Laboratories, Inc., be forwarded to us promptly."

Q. Were any such communications or notices from Printing Arts Research Laboratories ever forwarded to you by any of these licensees to whom you sent Exhibit 60, Mr. Adams?

A. I don't recall any.

Mr. Lyon: That is all.

The Court: Any redirect examination?

Mr. Hoppe: No redirect examination, your Honor.

The Court: You may step down.

(Witness excused.)

The Court: It's four minutes to 12:00. Do you prefer to recess at this time and return at 1:30?

Mr. Hoppe: 1:30, your Honor? [74]

The Court: Or if you have a short witness——

Mr. Hoppe: We will be back at 1:30.

The Court: Very well. We will recess until 1:30.

(Whereupon a recess was taken until 1:30 p.m. of the same day.) [75]

July 24, 1956; 1:30 O'Clock P.M.

Mr. Hoppe: I would like to read three admissions against interest from an affidavit of Mr. Marx in evidence here, your Honor. I am reading statements from an affidavit of Walter S. Marx, Jr., subscribed to and sworn to on January 29, 1949, and filed in this case on January 31, 1949.

The first paragraph I read in evidence is the following:

"At the National Convention of the American Photoengravers' Association, held in Cleveland in October of 1948, I exhibited said letter of October 6, 1948, to Mr. Frank P. Adams and Mr. J. Mertle, respectively President and Technical Adviser of plaintiff corporation, and to Louis Flader, ex-commissioner of the aforementioned Association, and to Mr. H. B. Latimer and Mr. Paul Schmidt, both representatives of the Harold M. Pitman Company which is a distributor of 'Fluorographic' supplies furnished by my company and of 'Kemart' supplies furnished by plaintiff corporation. * * *"

The second paragraph I read in evidence appears on page 4 of the same affidavit:

"Shortly after the aforementioned Convention, I instructed patent counsel for the defendant corporation to obtain proof of infringement and other [76] information prerequisite to the filing of a suit for direct infringement against some one representative user of the 'Kemart' process. * * *"

And the last portion of this affidavit which I read in evidence is an excerpt appearing on page 7:

"'* * * This Bulletin"—referring to the Photo-

engravers Bulletin—"goes to practically everyone in the United States interested in the processes to which this litigation relates. * * *"

I would like to call Mr. Youngdahl to the stand, if I may.

Mr. Youngdahl, will you take the stand.

LYLE P. YOUNGDAHL

called as a witness on behalf of the plaintiff, being first duly sworn, was examined and testified as follows:

The Clerk: Will you state your name, please?

The Witness: Lyle P. Youngdahl.

The Clerk: How do you spell your last name?

The Witness: Y-o-u-n-g-d-a-h-l.

Direct Examination

Q. (By Mr. Hoppe): Mr. Youngdahl, what is your business?

A. I am employed by the Kemart Corporation.

Q. When did you become employed by that corporation?

A. Practically at the outset of the formation of the corporation, which I believe was in 1947.

Q. At the time you commenced work for the Kemart Corporation what was your job?

A. My job for the first few years was mainly sales. I was a salesman.

Q. That would be in 1947 and '48?

A. '48, '49, '50, and even into '51.

Q. Now, have you heard of Walter Marx or the Marx patent? A. Yes, I have.

(Testimony of Lyle P. Youngdahl.)

Q. When did you first hear of the Marx patent, and in what connection was it?

A. The first knowledge that I can recall having of the Marx patent was, I believe, in the year 1943 when I was in the Army. My partner, who was associated with me in the business at that time, told me that we had received a letter from a Mr. McCaleb, who I believe was either associated with or represented Mr. Marx.

Q. In what year was that, about, Mr. Youngdahl?

A. I believe it was 1943, as my memory serves me now.

Q. What was the name of the company that you and your partner had at that time?

A. It was probably the Glow Bright Company [78] which we later on changed to the Chemart Company, but spelled differently than it is presently spelled. Mr. Berry and myself had it alone. We spelled it C-h-e-m-a-r-t.

Q. What was that, the name of the company or the name of the process?

A. I believe it was the name of the process. Glow Bright Company was the name of the company.

Q. What business was the Glow Bright Company in?

A. It manufactured luminescent phosphors, principally.

Q. Was the Glow Bright Company engaged in

(Testimony of Lyle P. Youngdahl.)

any work in connection with processes in the photo-engraving art?

A. At the outset, no. That was something we developed in the course of our experiments; principally Mr. Berry. I believe it started—my first recollection of halftones, highlight halftones, was the result of some experiments that he conducted. And I believe that was in the year 1940.

Q. What was the Glow Bright Company doing in the year 1943 that this letter of 1943 related to?

A. We were selling luminescent phosphors, and we were trying to market this process that we had hoped we had perfected.

Q. And that is the process that you called the "Chemart" process, which is spelled C-h-e-m-a-r-t?

A. At that time we spelled it that way, yes.

Q. Did anyone use that process in 1943? [79]

A. We had, as I recall, only one user of it in 1943, and that was the Call-Bulletin in San Francisco.

Q. Did the Call-Bulletin stop using the process, or does it still use it?

A. To my knowledge they are still using it. They were when I was last in San Francisco, which was last week.

Q. And have they used it continuously since that time in 1943?

A. They have continued to keep the contract in effect, and I would assume that they did.

Q. Now, have you heard of the Marx process or the Marx patent or the Fluorographic process

(Testimony of Lyle P. Youngdahl.)

since this 1943 episode? And if so, what was the next time that you heard of it?

A. Yes, obviously I have heard of it many times since 1943. I believe I was cognizant of it at the first Photoengravers convention that I attended, which was in Buffalo. I believe that they had an exhibit there.

Q. What year was that, if you recall?

A. I believe that was 1948. I could be wrong, but I believe it was 1948.

Q. Do you recollect Mr. Adams' testimony and the testimony of Mr. Marx that the Cleveland convention took place in 1948? And, if so, I ask you if that refreshes your recollection as to when the Buffalo convention occurred. [80]

A. I still recall the Buffalo convention in 1948. It was '47 or '48. It could have been one or the other.

Q. Well, at the first time that you saw this booth, or whatever it is, at the Buffalo convention, was the Marx patent situation discussed at that time? A. Not to my knowledge.

Q. What was the first time after that convention in Buffalo that you heard the Marx patent picture discussed, and by whom?

A. I received a letter, or what we choose to call an inter-office memo, while I was a salesman on the road—that was some place in the Middle West area—selling Kemart. And the letter told me that a suit had been filed by Kemart Corporation against the Fluorographic Corporation.

(Testimony of Lyle P. Youngdahl.)

Mr. Lyon: Excuse me. I move to strike that testimony unless the letter is better identified than that.

Mr. Hoppe: You can move to strike the testimony. We won't rely on it anyway, Mr. Lyon.

Q. Did you have any conversations with customers or prospective customers concerning the Marx patent picture?

A. During what period of time?

Q. During the period from 1948, say, until 1951, while you were on the road.

A. Yes, many times.

Q. As well as you can, will you state the [81] places of those conversations and the substance of the conversations and the people who were present?

A. Well, I traveled the area and sold for the Kemart Corporation, principally in the area north of the Mason and Dixon line and the Pacific coast up to and including the Atlantic coast in some areas. My principal work was done on the Pacific coast and in the Middle West. I can recall working very hard in the Milwaukee area to get some sales. The leader in that area in the industry was conceded to be the Krus Company. That's spelled K-r-u-s, if I remember the spelling correctly. I think that is it.

I worked very hard on that, and I thought I was making some headway. And I recall that the Krus Company refused to do business with us because they said they were afraid of possible litigation——

(Testimony of Lyle P. Youngdahl.)

Mr. Lyon: Excuse me. I want to object, your Honor, if we are going to have a recitation of the substance of a conversation, unless the proper foundation is laid, and unless I can make what other objections should be made.

The Court: Lay the foundation.

Mr. Hoppe: Well, your Honor, I submit that the foundation has been laid. I asked him the remarks or conversations that he has had with his customers concerning these charges.

The Court: But he is interposing a parenthetical assertion to the effect that they quit doing [82] business because of so and so.

Mr. Hoppe: No, he said that they said they quit business, as I recall it, your Honor, and that is the same argument we had yesterday, which is to show the effect of these libels on the industry. And the reasons that people——

The Court: Well, proceed, then, if that's his statement. I did not so understand the testimony.

Mr. Hoppe: Oh, I beg your pardon.

Q. I would like to have you limit your answer, Mr. Youngdahl, if you didn't, to what people have told you during the course of these conversations that you are about to narrate.

The Court: Take them up one at a time.

Q. (By Mr. Hoppe): Would you take the first one that you have been discussing, which is the Milwaukee situation with Mr. Krus?

A. Well, the Krus Company told us——

(Testimony of Lyle P. Youngdahl.)

The Court: Who told you, when, and where, Mr. Youngdahl?

Q. (By Mr. Hoppe): When was this, Mr. Youngdahl, if you can remember?

The Court: The company can't talk. Somebody told you. Some man told you.

The Witness: A representative of the Krus Company. And I talked to many of them there.

The Court: What was his name? [83]

The Witness: I don't recall the name, because I talked to possibly everyone there connected with the halftone repro——

The Court: Can you remember a single one of them who told you anything?

The Witness: I don't remember the name of the party who told me. That I do not remember, honestly.

Q. (By Mr. Hoppe): Do you remember the conversation?

A. I remember the conversation distinctly because that is the thing that made the impact on me, because I was a salesman and I was interested in sales. And I couldn't make a sale for the reason——

The Court: Don't volunteer any more. Just wait for Mr. Hoppe's question.

Q. (By Mr. Hoppe): Now, do you remember, other than the Milwaukee instance, do you recall——

Mr. Lyon: I move that the testimony be stricken, no foundation laid.

(Testimony of Lyle P. Youngdahl.)

The Court: Motion denied.

Q. (By Mr. Hoppe): Do you remember any other conversations in which you remember the names of the people involved, say, with other companies where your recollection may be a little better, Mr. Youngdahl?

A. I remember——

Q. Is your answer "Yes"?

A. Yes, I do remember. [84]

Q. Will you narrate one of those, please?

A. I remember the Repritone Company — that might not be the full name of the company, but it was the Repritone Company—in Kansas City, and the gentleman's name was Nelson with whom I spoke. And I recall that he told me——

Mr. Lyon: Just a moment. I certainly think we are entitled to the time there.

The Court: Ask him the questions, Mr. Hoppe. Don't leave the witness to——

Mr. Hoppe: Yes, your Honor.

Q. When did this occur, as best you can recall, Mr. Youngdahl? A. About the year 1950.

Q. What part of the year, if you can remember?

A. I would say the middle of the year.

Q. What was the substance of the conversation that Mr. Nelson reported to you?

A. He said they would not do business with us.

Q. Did he assign a reason?

A. Yes, he did.

Q. What was the reason that he assigned?

A. That he would not do business because he

(Testimony of Lyle P. Youngdahl.)

was afraid of possible litigation, being sued by the Fluorographic Company.

Q. Do you recall any other conversations that you had [85] in other parts of the country during 1948, '49, and '50? A. Yes. I had——

Q. When is this one that you are going to tell us about now? About what year? A. 1950.

Q. And in what city was it?

A. Sacramento, California.

Q. What time of the year, if you recall?

A. I don't recall the exact time of the year.

Q. With whom was this conversation, Mr. Youngdahl?

A. The superintendent of the engraving department, Mr. Belgau. B-e-l-g-a-u, I believe, is the proper spelling.

Q. Of what company?

A. The Bee Engraving, Sacramento.

Q. What, if anything, did Mr. Belgau tell you concerning the Marx situation?

A. He said that he was unsuccessful in getting the higher echelon in his company to sign the contract with the Kemart Corporation.

Q. Did he assign a reason for that?

A. He said that they told him they were afraid of possible litigation, and being sued by the Printing Arts Research.

Q. Do you recall any other conversations specifically that you had during the years 1948, '49, and '50? [86]

A. I remember getting a contract signed from

(Testimony of Lyle P. Youngdahl.)

the Columbian Engraving Company in Chicago who later canceled.

Q. Do you recall the year that was in, Mr. Youngdahl?

A. That was in the year of 1949, I believe.

Q. Can you recall any other instances at this time?

A. There were numerous instances, but to enumerate the specific ones, I could not.

Q. Do you know Mr. Frey, who has been identified as a salesman for the Printing Arts Research Laboratories?

A. Yes, I have met Mr. Frey on numerous occasions.

Q. Has Mr. Frey had any conversations with you during the period of time that you have known him?

A. Well, when we meet at conventions we always speak. I have only attended three conventions. I think I met him at two of them.

Q. Where did you meet Mr. Frey, which convention and what year?

A. I attended the convention that was held in San Francisco, and I believe that was 1949. I met him there. I spoke to him several times during the course of the convention.

Q. Did you and Mr. Frey have conversations during the years 1949, '50 or '51 concerning the Marx patent or Marx litigation?

A. Yes. On one or more occasions I know we spoke of [87] that.

(Testimony of Lyle P. Youngdahl.)

Q. Can you place the time of any of them?

A. We spoke about it during the San Francisco convention, I know that. I recall that.

Q. What was the substance of the conversation which you had with Mr. Marx concerning the patent, if you had any, at that time?

A. I didn't have any conversation with Mr. Marx.

Mr. Hoppe: I mean with Mr. Frey.

Mr. Lyon: Your Honor, I think we should know if any other parties were present.

The Court: Why not cover those matters and avoid these objections?

Mr. Hoppe: All right, your Honor. I will do that.

Q. Was anyone present at these conversations besides you and Mr. Frey?

A. I do not recall.

Q. Now, as accurately as you can remember, would you state the substance of that which Mr. Frey told you, any such conversation that you can recall, concerning the Marx patent? And in so doing try to establish the date as closely as you can.

A. Well, at the San Francisco convention I know that litigation was mentioned. And Frey at that time told me that any Kemart licensee was infringing the Fluorographic patents. [88]

Q. Did you have any conversations concerning the financial future of the Kemart Corporation with Mr. Frey?

A. No, not as to the Kemart Corporation. We

(Testimony of Lyle P. Youngdahl.)

spoke of—I classed myself at that time as a salesman, and I think he does, too, or at least intimated that he did. He just asked me what I was going to do when the Kemart Corporation folded up.

Mr. Lyon: I am sorry to interrupt, but the manner of questioning confuses me, your Honor. It is not clear to me where that statement was made. If it was made at the San Francisco convention at the time the other statement was made, I think we should know.

Q. (By Mr. Hoppe): Will you please state as best you can, Mr. Youngdahl, when that conversation occurred?

A. That was at the San Francisco convention.

Q. Now, Mr. Youngdahl, have I asked you within the last day or so to make a search at the public library and to find examples of highlight halftone photography in the year 1936, say before May of 1936? A. Yes, you did.

Q. And did you make such a search for me?

A. I made such a search at the public library here in Los Angeles.

Q. Did you make any other search?

A. I went down to a second-hand magazine place and [89] looked for some old magazines.

Mr. Hoppe: I hand Plaintiff's Exhibits 79 and 80 and 81 for identification to the witness.

(Whereupon the documents were placed before the witness.)

Q. (By Mr. Hoppe): Are you able to identify

(Testimony of Lyle P. Youngdahl.)

the papers which I have just handed to you, Mr. Youngdahl? A. Yes, I am.

Q. What is the first paper that is in your hand, that is marked Plaintiff's Exhibit 79?

A. That is a sheet out of a magazine, from the issue of March 1936.

Q. And that was Harper's Bazaar, was it not?

A. I believe that was Harper's Bazaar or Delineator, one or the other. I believe that is Harper's Bazaar.

Q. Where did you get that magazine?

A. The second-hand magazine store here in Los Angeles. The address is, I believe, 633 South 8th.

Q. And what is Plaintiff's Exhibit 80 for identification, that you have?

A. That is a sheet from another magazine, torn out of another magazine. And that is the Delineator for January 1934.

Q. Now, what is Plaintiff's Exhibit 81 for identification?

A. Some photostatic reproductions of issues of the [90] Los Angeles Examiner in the year 1936.

Q. Did you look at the originals of which those are photostats? A. I did.

Q. And what are the pictures that appear on the several pages of Plaintiff's Exhibit 81 for identification?

The Court: Is there any issue as to these?

May it be stipulated that these documents are genuine and in all respects what they purport to be?

(Testimony of Lyle P. Youngdahl.)

Mr. Lyon: I will stipulate they are copies, genuine copies of the Los Angeles Examiner as of the time that—whatever the date shows.

The Court: And the various magazines which they show themselves to be?

Mr. Lyon: Yes, sir.

The Court: You offer them in evidence?

Mr. Hoppe: Yes, I offer them in evidence.

The Court: Any objection?

Mr. Lyon: Yes, sir. I think they have utterly no probative value.

The Court: What is the purpose of the offer?

Mr. Hoppe: The purpose of the offer is this, your Honor——

The Court: They are offered to prove what?

Mr. Hoppe: It is offered to prove that when Defendant's [91] Exhibit J was offered in evidence to show the state of the art in 1936 with these very muddy showings, without highlighted negatives, and when Mr. Marx testified——

The Court: It's offered to show the state of the art at the time of the various publications, is that it?

Mr. Hoppe: Yes, your Honor, and also to show that Mr. Marx was not testifying truthfully at pages 132 and 133 and 134 of the printed record.

The Court: The objection is overruled. Received in evidence.

Mr. Lyon: May I be heard just a moment?

The Court: Not in argument, Mr. Lyon. If you wish to state any further objections you may do so.

(Testimony of Lyle P. Youngdahl.)

Mr. Lyon: I would like to object. You say I may state a further objection?

The Court: Yes, but not argue it. State your objection.

Mr. Lyon: Yes. I would like to object on the ground that no foundation has been laid for the admission of these photographs in evidence because it has not been ascertained what method was used to reproduce the pictures.

Mr. Hoppe: No method was also offered to show what method was used for Exhibit J, your Honor. That was offered, as your Honor will recall, to show what was typical of the art at that time.

The Court: Very well. The objection is overruled. [92] The exhibits are received in evidence.

(The documents referred to, marked Plaintiff's Exhibits 79, 80, and 81, were received in evidence.)

Q. (By Mr. Hoppe): Now, Mr. Youngdahl, referring to Plaintiff's Exhibit 81, would you point out on a few pages to the court where there are highlighted negatives?

Mr. Hoppe: If your Honor would like to see them.

The Court: I have been all through that, Mr. Hoppe. I was given a very liberal education in this at the time of the trial. I shan't forget it, I hope.

Q. (By Mr. Hoppe): The originals of Plaintiff's Exhibit 81, did they have dots in the highlight areas? A. No, they did not.

Mr. Hoppe: You may cross examine.

(Testimony of Lyle P. Youngdahl.)

Cross Examination

Q. (By Mr. Lyon): Mr. Youngdahl, from inspection of those exhibits can you tell what method of halftone reproduction was used?

A. No, I could not.

Q. Can you tell whether, for example, the highlights were painted—the dots in the highlights were painted out?

A. I would have no way of knowing.

Q. Or cut out?

A. I would have no way of knowing. [93]

Q. Can you tell how long it took to make the plates from which those prints were made?

A. No, I could not.

Q. In other words, you know nothing about the actual method or how long it took or how much trouble there was in it or how expensive it was to make those pictures in the newspapers and magazines?

A. I do not know by what method it was done.

Mr. Lyon: That is all.

The Court: You may step down.

Mr. Hoppe: No further examination.

(Witness excused.)

Mr. Hoppe: I would like to call Mr. Holsapple to the stand.

The Court: Very well.

Mr. Hoppe: I think this will take about 15 minutes, your Honor.

HARVEY T. HOLSAPPLE

called as a witness on behalf of the plaintiff, being first duly sworn, was examined and testified as follows:

The Clerk: Will you state your name, please?

The Witness: Harvey T. Holsapple.

The Clerk: How do you spell your last name?

The Witness: H-o-l-s-a-p-p-l-e. [94]

Direct Examination

Q. (By Mr. Hoppe): Mr. Holsapple, what is your business? A. At present?

Q. At the present time.

A. Sales manager for the Kemart Corporation.

Q. And, generally speaking, what is the area of business in which the Kemart Corporation is engaged? Is that the photoengraving business?

A. Photoengraving, lithography.

Q. How long prior to the time that you worked for the Kemart Corporation did you became associated with the photoengraving industry?

A. 1924.

Q. With what company were you associated at that time?

A. The Boeing Company at that time.

Q. And what work did you do at that company?

A. Newspaper engraving.

Q. Making halftone plates?

A. Yes, sir.

Q. What was your next job in the photoengraving field, and at what time was that?

(Testimony of Harvey T. Holsapple.)

A. One year later I went with the Buckley Mirrors Company in the color engraving department.

Q. And that's 1925, about? [95]

A. Yes.

Q. And did you do halftone work there?

A. Yes, I did.

Q. How long did you stay with that company?

A. Eighteen years.

Q. Until 1943, that would be?

A. That's right.

Q. And what company did you go to work for at that time?

A. I was still with that company, but a subsidiary company.

Q. What was the name of that company?

A. Charles Norman Company.

Q. What did you do for that company?

A. Made bombsights for the war.

Q. How long did you continue in that activity?

A. I left that plant—we closed it in New Rochelle, New York, in 1946.

Q. And in 1946 what did you start to do?

A. I went with Harold M. Pitman Company.

Q. In what business was the Harold M. Pitman Company? A. Supplier to the graphic arts.

Q. How long did you stay with the Harold M. Pitman Company?

A. Until nineteen—see, I have been out of there for [96] two and a half years.

Q. That would be 1948, about.

Then what did you do, Mr. Holsapple?

(Testimony of Harvey T. Holsapple.)

A. I went into business with Mr. Hay in Minneapolis as an associate partner with him in the supply business.

Q. What supply business was that?

A. That was a supplier to the graphic arts.

Q. How long did you stay with that company?

A. One year.

Q. Until 1949? A. Yes.

Q. What did you do in 1949?

A. I am trying to see if my dates are right.

I went with the Kemart Company in January nineteen fifty—wait a minute—well, a year and a half ago. 1955, wouldn't it be?

Q. What were you doing between 1949 and 1955?

A. I have got my dates wrong, sir.

Q. Well, what period were you with the Harold M. Pitman Company?

A. I was with the Harold M. Pitman Company to two and a half years ago, because I have been living in our home in Minneapolis two and a half years, when I moved back.

Q. Now, you were engaged in the graphic arts business and in the making of halftone negatives, then, in 1936, is [97] that correct?

A. That is right.

Q. Have you an opinion as to the status to which halftone photography had developed at that time? A. I have.

Q. I hand you an exhibit which has been received in evidence at the original trial of this case

(Testimony of Harvey T. Holsapple.)
as Defendant's Exhibit J. I ask you to examine that.

(Whereupon the witness examined the document.)

Q. (By Mr. Hoppe): Would you state that that picture is an example of the prior art in the year 1936, in and before March of 1936?

Mr. Lyon: Well, I object. I don't see the meaning of this. I object to the question as meaningless in the context here.

The Court: There is probably some question as to its weight. Overruled.

You may answer.

The Witness: May I hear the question again, please?

The Court: I suggest you reframe it, Mr. Hoppe.

Q. (By Mr. Hoppe): Would it be true to say, Mr. Holsapple, that that Exhibit J is an example of the prior art which had been attained in the year 1936, particularly before the month of March of 1936? A. I would say it is not. [98]

Q. Would you say that it is a correct statement that that exhibit truly represents the halftone nuisances that confronted newspaper printers in the year 1936? A. No.

Q. In the year 1936 had the art advanced to the stage where it did have satisfactory halftone highlighting negatives? A. Yes.

Mr. Hoppe: You may cross examine.

(Testimony of Harvey T. Holsapple.)

Cross Examination

Q. (By Mr. Lyon): Sir, do you know whether that picture to which you have just referred is highlighted at all? A. Yes, I know.

Q. Is it? A. No.

Q. It would look entirely different, would it not, if it were highlighted? A. It would.

Q. And is there any evidence, in your view, of any attempt to highlight it? A. No.

Mr. Lyon: That is all.

Mr. Hoppe: That is all. You may step down.

The Court: You may step down, Mr. Holsapple.

(Witness excused.)

The Court: Do you have any other witnesses?

Mr. Hoppe: No, we don't. We just have one more exhibit to put in evidence, your Honor.

The Court: Very well.

Mr. Hoppe: We have just stipulated, your Honor, that Plaintiff's Exhibit 59 is a correct photostat of the Graphic Arts Yearbook for the year 1913. And I offer that in evidence.

The Court: 1913?

Mr. Hoppe: 1913, your Honor.

Mr. Lyon: I make the same objection that I made before about these various pictures. They are made by unascertained and unascertainable processes.

The Court: You stipulate to the genuineness of the document?

Mr. Lyon: Oh, yes, sir.

The Court: The objection is overruled. I take it that your objection is that it is immaterial.

Mr. Lyon: That is my real objection.

The Court: Overruled. It may be received in evidence.

(The document referred to, marked Plaintiff's Exhibit 59, was received in evidence.)

Mr. Hoppe: Your Honor, the plaintiff rests on this [100] retrial of the issues on the questions of libel, slander, unfair competition, and the right to attorneys' fees.

The Court: How much do you have to offer, Mr. Lyon?

Mr. Lyon: Well, your Honor, I am not familiar with this type of procedure. I have never been in one before. It's gotten complicated. I don't want to make a motion, but I want to ask your permission if I can make a motion at this time for a judgment on the ground that, in the light of all the past circumstances, the situation hasn't changed one bit from the time you heard full argument in this case and it was briefed and you made your decision that plaintiff was neither entitled to damages nor was entitled to attorneys' fees.

I hope to avoid bringing Mr. Frey out and putting Mr. Marx on the stand and taking up any more of your Honor's time or our time.

The Court: Perhaps you gentlemen can stipulate as to what Mr. Frey will say. Have you tried that?

Mr. Lyon: Well, I know what Mr. Frey will say. But I am sure Mr. Hoppe won't.

May I state what Mr. Frey will testify to?

The Court: Why don't you tell Mr. Hoppe, and perhaps he will agree to stipulate that if he were called he would so testify?

Mr. Lyon: Do you want me to tell him now?

The Court: You can tell him privately.

Mr. Lyon: That is what I meant.

The Court: The motion—and I take it as a motion to dismiss for failure of proof on these issues, and the motion will be denied.

Now, how much evidence do you wish to present, in point of time?

Mr. Lyon: About an hour to two hours' worth.

The Court: Well, would you gentlemen like to come tomorrow morning?

Mr. Lyon: Well, I have to get Mr. Frey from the east coast. That is why I asked leave to make the motion. I didn't make the motion.

The Court: Well, your motion is, I take it——

Mr. Lyon: If I were to make it.

The Court: ——a motion to dismiss for failure of proof. That is your motion?

Mr. Lyon: I am not making the motion.

The Court: Very well.

Mr. Lyon: Now, I have to bring Mr. Frey from the east coast.

Mrs. Marx, on behalf of Mr. Marx, I am told, got ahold of Mr. Frey and told him we needed him out here. We will know, I hope, tonight whether he can get here tomorrow.

And may I request that, if you have open time,

that we [102] dispose of this thing Thursday afternoon?

The Court: Well, I don't like to keep Mr. Hoppe.

Mr. Hoppe: I can go back to San Francisco by air, your Honor. It only takes about 95 minutes to get up there, and another 95 minutes to get back.

The Court: Yes, I know, but I didn't want to put you to that inconvenience. Do you want to spend tomorrow up there?

Mr. Hoppe: I could. Or, if it would be convenient, I will be back here tomorrow.

Mr. Lyon: May I have five minutes with Mr. Hoppe? I will suggest a stipulation.

The Court: If you can, that will dispose of it. The Court will not need to remain on that account.

Mr. Hoppe: We might be able to agree.

Mr. Lyon: My point, your Honor, is that if we can get together on the stipulation on Mr. Frey, then I can put Mr. Marx on any time you want.

The Court: Would you want to take it up tomorrow, do you suppose?

Mr. Hoppe: If we can reach an agreement on Mr. Frey, that would be fine, your Honor.

The Court: Suppose you gentlemen confer.

(Whereupon there was a conference between counsel.)

Mr. Lyon: Your Honor, I offer to stipulate [103] with Mr. Hoppe that, were Mr. Frey to appear before you, he would testify, first, that since the inception of this conflct he has been under strict instructions from Mr. Marx not to discuss the conflict with anyone; second, that he has not discussed

it with any customers or others outside the organization; and third, that he has not discussed the matter in any manner with Mr. Frank Adams.

Mr. Hoppe: We stipulate. But we don't want to be bound by the truth of the assertions.

The Court: No, of course not. But it is stipulated, for the purpose of this trial, that the witness Frey will be deemed to have been called by the defendant and to have been sworn and to have so testified.

Mr. Hoppe: That is correct.

Mr. Lyon: Thank you, your Honor.

The Court: Very well. Then do you wish to take a chance on taking it up tomorrow? Or would you prefer, Mr. Hoppe——

Mr. Hoppe: I would just as soon go ahead tomorrow, your Honor.

The Court: Well, there is a slim chance tomorrow. It's very slim. But if you wish to return to San Francisco and spend the day profitably there and then come back Thursday morning or afternoon, you could do that.

Mr. Hoppe: You do have this other trial [104] on tomorrow, don't you, your Honor?

The Court: Yes. It might be settled. There is just an outside chance. There is always that chance, you know.

Mr. Hoppe: Is it a personal-injury case?

The Court: No. It involves damages for delay in a freight shipment by truck line.

Mr. Hoppe: I think I will take a chance that the

case will be settled, and stay over tonight, and we may be able to get the thing over here tomorrow.

The Court: Suppose you come tomorrow morning at 9:30. We will continue this to the same time, and we will see what the situation is on that case.

The clerk might as well call counsel, if you like, and see if he can ascertain definitely whether it is going ahead tomorrow morning. Would that help you any?

Mr. Hoppe: I would certainly appreciate that accommodation.

The Court: Mr. Clerk, will you call counsel in tomorrow's case and see what the present status of the situation is and if they plan to go to trial tomorrow.

And then the clerk can tell you what he learns. Then, if you wish, you can return to San Francisco and then come back Thursday. Would you want to come back in time to take it up Thursday afternoon at 2:00 o'clock?

Mr. Hoppe: That will be fine, your Honor. [105]

The Court: Will that be agreeable, Mr. Lyon?

Mr. Lyon: However, you'd like, your Honor.

The Court: The order made now is that it will be continued until tomorrow morning at 9:30. But upon the request of either side it will be continued further until Thursday afternoon at 2:00 o'clock.

Mr. Hoppe: Thank you, your Honor.

The Court: You can arrange that with the clerk. He will take care of it.

Mr. Lyon: The counsel for these two parties are going to be called this afternoon?

The Court: As soon as we adjourn, now. So if you will stay and keep in touch with the clerk, he will get in touch with them, and it might well be that they have agreed upon a settlement. And then you can gauge it by that. If they report they are ready to go to trial tomorrow, then the clerk will, if you request it, enter an order continuing the matter further until Thursday afternoon at 2:00 o'clock. Then you won't need to appear tomorrow at all.

Mr. Hoppe: Thank you, your Honor.

(Whereupon, a recess was taken until 2:00 o'clock p.m., Thursday, July 26, 1956). [106]

Thursday, July 26, 1956—2:00 P.M.

The Court: Any exparte matters?

(Other court matters.)

The Clerk: Case No. 8909, Kemart Corporation versus Printing Arts Research Laboratories.

Mr. Hoppe: I had rested, your Honor.

Mr. Lyon: Ready for the defendant, your Honor.

The Court: You may proceed then, Mr. Lyon.

Mr. Lyon: The defendant calls Walter Marx to the stand.

WALTER S. MARX

called as a witness on behalf of the defendant, being first duly sworn, was examined and testified as follows:

The Clerk: Will you state your name, please.

The Witness: Walter S. Marx.

Direct Examination

Q. (By Mr. Lyon): Are you the same Walter Marx that is the patentee of the patent that has been litigated in this case, and who has testified previously in this case? A. Yes.

Q. Mr. Marx, let's go back to the time immediately preceding the Cleveland convention, which has been testified [109] as being in October of 1948. You will recall, I believe, a letter from a Mr. McCaleb to Kemart Corporation which charged the Kemart Corporation with infringement of your patent. Is that right? A. That's right.

Mr. Lyon: That is Exhibit 29 in the case.

Q. Now, immediately preceding the communication of that letter to Kemart did you have occasion to consider—either yourself, or in conjunction with Mr. McCaleb, who I believe was your patent attorney—the question of whether or not the process practiced by the Kemart Corporation infringed that patent? A. Yes, we considered that.

Mr. Lyon: I have but one exhibit, your Honor. It hasn't been marked.

The Court: Very well. It will be marked defendant's next in order.

Mr. Lyon: I think that would be RR.

(Testimony of Walter S. Marx.)

The Clerk: You want to go right on marking them?

Mr. Lyon: Yes. This is the only one, Mr. Clerk.

I offer it for identification as Defendant's Exhibit RR.

The Court: It may be so marked.

(The document referred to was marked Defendant's Exhibit RR for identification.)

Q. (By Mr. Lyon): I show you Defendant's Exhibit RR and [110] ask you, have you seen that letter before? A. Yes.

Q. Do you recognize the signature appended thereto? A. Yes.

Q. Whose is it? A. Albert G. McCaleb.

Q. What was the occasion for the letter, Mr. Marx?

A. This was Mr. McCaleb's opinion as to whether or not the Kemart process actually did infringe our patents.

Q. And that was sent to you from Mr. McCaleb?

A. Yes.

Mr. Lyon: May I offer in evidence Defendant's Exhibit RR, your Honor?

Mr. Hoppe: May it please the court, we object to its reception in evidence, generally, because the letter does contain some hearsay. We do not object to it as proof of the fact that that is a letter of opinion which Mr. Marx received. But we do object to it as proof of the contents of the letter.

Mr. Lyon: I offer it for the limited purpose, your Honor, of showing that Mr. McCaleb gave

(Testimony of Walter S. Marx.)

to Printing Arts Research his opinion that the patent was infringed.

The Court: Opinion of counsel?

Mr. Lyon: Yes, sir.

The Court: Is there any objection for that purpose? [111]

Mr. Hoppe: No objection to the limited offer.

The Court: Very well. Received in evidence.

(The exhibit heretofore marked Defendant's Exhibit RR, was received in evidence.)

[See page 287.]

Q. (By Mr. Lyon): Now, did you discuss the matter of this infringement with Mr. McCaleb at any time immediately prior to the Cleveland convention? A. Yes.

Q. Under what circumstances?

A. At Mr. McCaleb's office, as I recall it, on my way to the Cleveland convention.

Q. That was immediately prior to the convention?

A. Yes. I may have discussed it with him at other times, as well.

Q. Were there any others present besides you and Mr. McCaleb?

A. Mr. Pensinger was with me in Mr. McCaleb's office. And if there were other discussions of this letter at other times, I don't recall whether anyone was there or not.

Q. Did Mr. McCaleb at that time discuss with you the matter of this infringement of the Marx patent by Kemart? A. Yes.

(Testimony of Walter S. Marx.)

Q. Did he give you his opinion as to whether such infringement existed? A. Yes, sir. [112]

Q. What was that opinion?

A. Substantially as written here in his letter.

Mr. Hoppe: I move to strike it if it is supposed to be proof of the facts of the communication. But I do not object to it as being received in evidence as proof of the communication, that it was made.

Mr. Lyon: I just offered it to show counsel's opinion again, your Honor.

The Court: Very well. Received in evidence.

Q. (By Mr. Lyon): Are you familiar with the Berry patent which purports to describe the Kemart process which has been litigated in this case?

A. Yes.

Q. Had you seen that Berry patent prior to the Cleveland convention? A. Yes.

Q. Had you studied it? A. Yes.

Q. Did you yourself, having studied that patent which purported to describe the Kemart process, believe that the Kemart process did infringe your patent? A. Yes.

Mr. Hoppe: I move to strike the testimony, your Honor, on the ground that the witness' belief is not in issue here. The issue is whether the statement was true or false and not [113] the witness' belief.

The Court: You mean on the issue of good faith?

Mr. Hoppe: Yes, sir.

(Testimony of Walter S. Marx.)

The Court: It would be relevant to the issue of attorney's fees, wouldn't it?

Mr. Hoppe: Yes, it would, your Honor.

The Court: Very well.

Mr. Hoppe: I'd overlooked that.

Mr. Lyon: I offer it also as relevant to this matter of this alleged libel, your Honor.

The Court: On the issue of unfair competition?

Mr. Lyon: Yes, on the ground, again, of good faith, absence of malice and privilege.

The Court: If the issue of malice is tendered, of course it would be relevant to that issue.

Mr. Hoppe: If they are putting in proof of good faith for whatever it is worth, your Honor, I have no objection; except I would not like to concede that their absence of good faith would bar our cause of action to libel. That is the only reason I was making the objection.

The Court: Or unfair competition.

Mr. Hoppe: Yes, or unfair competition.

The Court: Very well. The objection is overruled. Received in evidence.

Q. (By Mr. Lyon): Now, at the time or times you met with [114] Mr. McCaleb was there any discussion between you and Mr. McCaleb, or Mr. McCaleb and Mr. Pensinger, or you and Mr. Pensinger, in respect to the policy that should be followed by your organization in respect to contact with customers and potential customers for these photoengraving processes relating to any charge of infringement of your patent?

(Testimony of Walter S. Marx.)

A. Yes, there was.

Q. What did that discussion consist of, Mr. Marx?

A. Mr. McCaleb warned us very strongly that we were not to discuss the issues of the case with anyone who was a potential customer of ours. And he made that—made a very strong impression with that warning.

Q. Now, at the convention itself—and referring to Exhibit 29, the letter by Mr. McCaleb to Kemart Corporation—did you hand such a letter to Mr. Frank Adams, who is the president of Kemart?

A. Yes.

Q. You did ? And when did you hand it to him?

A. It was before lunch, I believe, on the first day of the convention.

Q. I see. Now, did you show the letter to anyone else? A. Yes.

Q. Can you remember to whom you showed it?

A. Yes. I showed it to Mr. Louis Flader, Mr. Joe Mertle, Mr. Bill Latimer and Mr. Paul Schmidt of the Pitman [115] Company.

Q. The latter two being of the Pitman Company?

A. Yes. I believe that Latimer was subsidiary to Pitman at the time.

Q. Now, referring first to Mr. Mertle, about when did you meet with Mr. Mertle? Could you recall?

A. It was after lunch on the same day.

(Testimony of Walter S. Marx.)

Q. Was anyone else present when you met Mr. Mertle?

A. Mr. Pensinger was present, and possibly Mr. Frey of our firm; possibly others.

Q. Will you relate the occasion that brought about this meeting?

A. Mr. Mertle asked what the discussion was all about in relation to a patent suit. Mr. McCaleb had cautioned us not to talk to anyone about this who was a potential licensee. We felt we shouldn't even talk to suppliers, but did feel free to show them Mr. McCaleb's letter. And I told Mr. Mertle that I didn't feel I should discuss the case, but he was free to read the letter if he desired. He did read the letter.

Q. Do you recall whether Mr. Mertle mentioned having talked the matter over with Mr. Adams prior to this meeting?

Mr. Hoppe: I object to the leading question.

The Court: Sustained.

Q. (By Mr. Lyon): Will you relate as well as you can [116] recall any statements of Mr. Mertle at the time of this meeting?

A. I don't recall any statements that Mr. Mertle made at that time.

Q. You did testify, however, that Mr. Mertle asked you about this controversy? A. Yes.

Q. Now, let's turn to Mr. Flader. What were the circumstances that led up to your meeting with Mr. Flader?

A. Well, Mr. Flader is not a supplier. He is an

(Testimony of Walter S. Marx.)

official in the Photoengravers' Union. But we felt that—just about the same way, that we shouldn't discuss the case, and that Mr. Flader would have a right to read the letter.

Q. Will you relate Mr. Flader's statements, if any, made at the time of that meeting?

A. I don't recall any statement that he made.

Q. Did you approach Mr. Flader yourself?

A. No.

Q. Did Mr. Flader approach you? A. Yes.

Q. You don't remember what he said there?

A. He said something to the effect that, "I hear there's a battle between you people and Kemart. What's it all about?"

Q. And you showed him the letter? [117]

A. That's right.

Q. Did you discuss the merits of the controversy with him? A. No.

Q. Now, referring to Messrs. Schmidt and Latimer in the meeting—I believe you said, did you—no, I guess you didn't. Did you see Mr. Schmidt separately?

A. I believe I did. Although, they may have been together. I am not sure on that point.

Q. Now, what was the occasion that led to your meeting with Mr. Schmidt?

A. Very much the same thing happened. Mr. Schmidt mentioned that he had heard that there was a battle, a controversy of threatened suits, and asked me what I knew about it. Again, I didn't feel that I should discuss it and showed Mr. McCaleb's

(Testimony of Walter S. Marx.)

letter and asked him to read it, and refrained from any further comments.

Q. Is it your testimony that he approached you?

A. Yes.

Q. How about Mr. Latimer?

A. The same situation with Mr. Latimer.

Q. Now, then, following that Cleveland convention do you recall the occasion of the filing of the instant suit against your company? A. Yes.

Q. And do you recall any newspaper publicity in connection with that filing?

A. Yes. I believe the Kemart Corporation published in the Photoengravers' Bulletin an article, or an ad, that seemed to us to distort the facts of the case.

Q. Did you discuss that ad with any of your associates, including Mr. McCaleb? A. Yes.

Q. Did you receive any advice from Mr. McCaleb as respects the publication?

A. Yes. Mr. McCaleb refused to allow us to reply in kind. By that, I mean he refused to allow us to publish the facts as we saw them at that time.

Q. Did he later permit you to put anything into the Photoengravers' Bulletin?

A. Yes, some time later.

Q. Do you recall when?

A. Six or eight months later, I believe.

Q. Perhaps I can refresh your recollection by referring you to what I have here designated by plaintiff as Appendix A to his opening brief in the

(Testimony of Walter S. Marx.)

last appeal in this case entitled "News Release and Explanation of our——"

That's the wrong one. I believe then it's Exhibit NN.

I was correct in the first instance.

Mr. Hoppe: Here it is. It is Exhibit C. [119]

Mr. Lyon: It is now in evidence as Exhibit C.

The Clerk: This is Plaintiff's Exhibit 34.

Mr. Lyon: Plaintiff's Exhibit 34.

Will you hand that to the witness, please?

(Whereupon the document was handed to the witness.)

Q. (By Mr. Lyon): That appears to be the May, 1949 issue of Photoengravers' Bulletin. Does that refresh your memory as to when you were permitted by Mr. McCaleb to make that release?

A. Yes.

Q. And you did so? A. We did.

Q. Now, at about this same time when the litigation commenced, what did your organization consist of, Mr. Marx?

A. Mr. McCaleb was president. Mr. Pensinger was vice president. Then Mr. Frey, chemists, office help and myself.

Q. Mr. Frey was what? A. Salesman.

Q. He was your only salesman?

A. That's right, yes.

Q. Is he still with you? A. Yes.

Q. Who of the people you have recited were those who had customer contact?

A. I am sorry. I didn't hear you. [120]

(Testimony of Walter S. Marx.)

Q. Who were those of the people you have mentioned, including yourself, who had customer contact?

A. Mr. Frey had the greater part of it. I had a very little; and Mr. Pensinger still less.

Q. Did the three of you discuss, to your recollection, any policy that would be followed by the organization as regards discussing the matter of this lawsuit with outsiders, including particularly customers?

A. Yes. We again kept Mr. McCaleb's warning in mind that this case should never be discussed; that is, the issues should never be discussed; that we might discuss only the status of the case at the time, but nothing more.

Q. Did you discuss whether you would volunteer information or not to outsiders?

A. Yes. We made as strict a rule as we could never to discuss any phase except the actual status of the case.

Q. Now, what were your instructions, if any, to Mr. Frey in that regard?

A. Essentially, just that; that he was never under any circumstances to discuss anything except the status, or the news of what the newspapers might report of the status of the case.

Q. Now, Mr. Frey has been with you since when? A. 1944, '45.

Q. What has been your experience with him as regards [121] his ability to follow orders?

A. He has an excellent ability to follow orders.

(Testimony of Walter S. Marx.)

In addition, he's of the highest personal integrity. He has a lot of regard for the rights of others and understands the kind of an order we gave him in regards to this case.

Q. Do you know of any instance in which Mr. Frey approached any customers and discussed this lawsuit? A. Not at all.

Q. You know of none. Do you know of any instance when anybody else in your organization did that? A. No, none at all.

Q. Mr. Marx, I show you Plaintiff's Exhibits 79, 80 and 81. Do you recognize them?

A. I don't recognize them by number, Mr. Lyon.

Q. Do you recognize what they are or purport to be? A. Yes.

Q. What are they?

A. Exhibit No. 79—I see the number, now—is a reproduction, a fine screen reproduction on slick paper of a drawing.

Q. Now, we have stipulated that that was in existence prior to the date of your patent.

A. All right.

Q. Now, can you tell from looking at that the process by which it was made? [122]

A. No. You can tell, however, that the whites have been removed from highlights in the illustration.

Q. How do you mean that, Mr. Marx?

A. There are no dots in the pure white areas of the reproduction, and those dots were removed

(Testimony of Walter S. Marx.)

by one of several probably very laborious ways, because if this was printed——

Mr. Hoppe: I move to strike the testimony as to how probably it was done. The witness testified he doesn't know. Anything else would be conjecture.

Mr. Lyon: That is satisfactory.

The Court: Sustained.

Q. (By Mr. Lyon): At that time were half-tone illustrations, such as you have before you, made which in your opinion were comparable in quality to the half-tone reproductions made by your patented process?

A. Not comparable. The quality approached the quality of our half-tone process.

Q. Will you explain how that was accomplished?

A. The dots were taken out on the original negative, possibly by painting. An opaque paint was put over the clear little dots on the negative where they were to be made opaque. This was a long, laborious proposition where a complicated design was to be reproduced.

The dots could have been taken out by masking the original with a mask that's made by hand so that the highlights [123] of the illustration have an opportunity to be overexposed during the photography. Since that mask is made by hand that operation is expensive and laborious.

There are two other methods that might have been done: one, the manipulation of odd shaped diaphragm stops at the camera lens so that the high-

(Testimony of Walter S. Marx.)

lights are overexposed in relation to the other values in the art. However, when that is done the camera has no way of distinguishing between the parts of the illustration that are to be reproduced pure white and those that are reproduced as a very light gray. Consequently, the light grays often disappeared along with the pure whites.

And a fourth method is simply cutting away the dots from the metal plate which is eventually to be used for printing.

Q. Now, from inspection of that Exhibit 79, can you tell whether or not one or more of those methods was used?

A. I can tell that one or more of those methods was used.

Q. Now, referring to Exhibit 80, is the same thing true? A. Yes.

Q. How about Exhibit 81?

A. There are a number of illustrations clipped together as Exhibit 81. This is the first time I have seen this [124] exhibit. But it looks to me as though all of the highlight half-tones in this exhibit—and there are a number of them—were made by one or more of the methods I have just described.

Q. Mr. Marx, I show you Plaintiff's Exhibit 59. Do you know what that is?

A. A series of highlight half-tone engravings.

Q. Now, can you tell from inspection the process used to result in those? A. No.

Q. You cannot? A. I cannot.

(Testimony of Walter S. Marx.)

Q. I notice that on the exhibit the words "150 lines" or "175 lines" or something like that appears. Is there any significance to that?

A. Yes. That means that a fine, relatively fine screen was used. That means that the dots are closer together and all are smaller.

In fine screen reproductions highlighting can sometimes be accomplished without a special process because the dots are so small that they appear to be not there. I mean, looking at the half-tone is an illusion, anyway. You see a series of dots, actually; but the impression you get is a picture.

Now, that series of dots in a fine screen illustration—let me change that. [125]

Where the dots are very fine the advantage of a highlight process is lost because the illustration looks very much like the original, and the whites are so close to white that it is hard to distinguish between the lightest values in the fine screen engraving and white.

Q. Is your process then directed to some other kind of half-toning? And if so, what?

A. Yes. Our process is directed primarily to newspaper illustration, where the paper is necessarily very cheap and there is a good deal of lint on the surface that would be picked up by a fine screen engraving. It's characteristic of fine screen engraving where there are small dots, the little areas between the dots must be quite shallow.

Q. Do the newspapers use fine screen engraving?

A. No. The newspapers use very coarse screens

(Testimony of Walter S. Marx.)

on the order of 55 lines or 65 lines and sometimes as even as high as 75 or 85.

Q. And those engravings before you in Exhibit 59, are they coarse screen or fine screen?

A. Yes. This is a photostatic reproduction, but I am quite sure the originals—I think I can almost see the dots on this reproduction and they are quite coarse.

Mr. Lyon: That is all. [126]

Cross Examination

Q. (By Mr. Hoppe): Mr. Marx, at the time you had this discussion with Mr. McCaleb in Chicago on your way to the Cleveland convention, that was on October 6th, was it not?

A. Yes, I believe it was.

Q. The date that letter was written?

A. Yes.

Q. And Mr. McCaleb was the president and a stockholder of *Kemart* Corporation at that time, was he not?

A. One moment. I don't know that I saw Mr. McCaleb on the same day the letter was written. As a matter of fact, the convention is usually towards the middle of the month. I probably saw Mr. McCaleb some time after the letter was written, if it was written on the 6th.

Q. How did you receive that letter, Mr. Marx?

A. Through the mail, to the best of my recollection.

Q. Where were you when you received it?

(Testimony of Walter S. Marx.)

A. Santa Barbara.

Q. How did you get from Santa Barbara to the convention? A. Via Chicago.

Q. So you had the letter with you when you were in Chicago and saw Mr. McCaleb there on your way to the convention? A. Yes. [127]

Q. At the time that you discussed the question of infringement with Mr. McCaleb, had you ever seen a piece of Kemart copy?

A. Frankly, I can't recall that to a point that is definite enough to state it here. I will have to say I don't know.

Q. Which of the Berry patents were you familiar with at the time that you had this meeting with Mr. McCaleb in Chicago?

A. Both of them.

Q. What else did you know about the Kemart process at the time you had the meeting in Chicago with Mr. McCaleb?

A. Well, it was pretty obvious to us what the Kemart technique——

Q. Would you please listen to the question.

I said, what else did you know, not what you conclude. What else did you know about the Kemart process?

A. Well, I believe I can say I knew the things that were obvious to us, as I started to say. After all, we're doing the same thing that Kemart was now trying to do and we understood those patents quite well. So we knew enough about the process

(Testimony of Walter S. Marx.)

to know that it was an infringement, at least from our standpoint; not being legalistic minded.

Q. What did you tell Mr. McCaleb about the Kemart process at this meeting before he wrote the opinion? [128]

A. Mr. McCaleb was the kind of an attorney who could tell us about the process. He was technically able to do that.

Q. What facts did you tell Mr. McCaleb?

A. I don't recall what I told him about the Kemart process.

Q. Now, before you made your invention there were highlighted negatives such as those that are before you, Exhibits 79, 80 and 81, is that right?

A. Yes, that's correct. These are positives, of course.

Q. What do you call those, "highlighted reproductions"? A. Yes, you might.

Q. And those highlighted reproductions, some of them are in newspapers and in coarse print and some of them are in slick magazines and in fine print, is that correct? Fine screen print?

A. That is correct.

Mr. Hoppe: Will you please hand this up to the witness?

(Whereupon the document was placed before the witness.)

Q. (By Mr. Hoppe): Now, that Exhibit J, do you recall that exhibit? A. Yes.

Q. Those are not highlighted reproductions, are they? A. That's right.

(Testimony of Walter S. Marx.)

Q. They have a screen pattern in the highlight areas, do they not, sir? [129]

A. I believe they do, as far as I can tell. One really needs a magnifying glass to be sure.

(Whereupon a magnifying glass was handed to the witness.)

The Witness: Thank you.

Yes, the entire area of both illustrations seem to be filled with dots.

Q. (By Mr. Hoppe): Now, one of those papers is in 1936. What paper is that, sir?

A. The Hamilton Advertiser.

Q. Where is the Hamilton Advertiser published?

A. I don't know.

Q. Is that not in Scotland? I notice the word "Glasgow" in one of the corners.

The Court: It might be in Ontario.

The Witness: I don't see "Glasgow."

The Court: Isn't there a Hamilton, Ontario?

Mr. Hoppe: I was going to ask him that, also, your Honor.

The Witness: I don't see any clue that would tell me where Hamilton is located.

Q. (By Mr. Hoppe): You don't believe that it is located in the United States, do you, Mr. Marx?

A. I don't know.

Q. Well, you obtained the paper. Where did you obtain it? [130]

A. That was obtained for me by someone. I don't know where it was taken from. It was prob-

(Testimony of Walter S. Marx.)

ably taken from something out of the Santa Barbara Public Library, with their permission, I hope.

Q. That's an original piece of paper, isn't it?

A. Yes. It may have been something purchased from the library, or from some collection. I don't know.

Q. You don't know where that came from?

A. No, I don't.

Q. What about the photostat. Do you know where that came from?

A. That is from the Santa Barbara Morning Press.

Q. And who obtained that?

A. Possibly the same person who obtained the lower picture.

Q. Who was that person?

A. I don't recall; someone in our organization.

Q. It wasn't you, though?

A. No, it wasn't me.

Q. Now, you recall during your first trial, Mr. Marx, that there was a discussion concerning your educational qualifications and your testimony?

A. Yes.

Q. Would you please state what your technical training was? [131]

Mr. Lyon: Objection. There was nothing said about this on direct.

The Court: I have some vague recollection that we went into that. Wasn't it the University of Pennsylvania? Wasn't that involved?

(Testimony of Walter S. Marx.)

Mr. Hoppe: I expect to go into it a little greater, your Honor.

The Witness: That was one school. I attended Pennsylvania.

The Court: I remember something about it.

What would be the purpose of it?

Mr. Hoppe: They tried to show good faith in this action on the question of attorney's fees, your Honor. I want to show an absence of good faith in the fact that this witness did not tell the truth on the stand concerning his educational qualifications. I think if a man makes false statements that it goes a great deal towards minimizing his protestation of good faith at a later date.

The Court: Wasn't that fully developed upon the trial?

Mr. Hoppe: I don't believe it was quite fully developed, your Honor.

The Witness: I would like to answer that, your Honor, if I may.

The Court: Very well.

The Witness: I stated in this courtroom [132] the names of several universities that I attended. I was absolutely wrong in my statement that I went to Dartmouth College. But I would like to explain why I said that and how it happened.

Q. (By Mr. Hoppe): I would like to hear that, sir.

A. I went to Clark School, which is a prep school in Hanover, New Hampshire, the same city

(Testimony of Walter S. Marx.)

where Dartmouth is located. A few of the faculty members of the Clark School were also Dartmouth faculty members and often Dartmouth students would come to Clark School for schooling. As a youngster, I believed it was impressive and in my favor to, therefore, say I went to Dartmouth instead of to Clark. And that error has apparently followed me and haunted me down right to this trial. And it was more habit than anything else that caused me to say that.

All the other schools that I mentioned were attended, although for very short periods. I was unfortunate in being in the hospital a good deal of the time when I was of college age.

Q. Then you did not graduate from any college?

A. No, I did not.

Q. And did you do any postgraduate work in spectral analysis?

A. Yes. During the war there were some classes held at Pasadena that were opened to the public; and inasmuch as we had some war work at my laboratory we were considering, [133] I took these courses at Pasadena.

Q. What postgraduate degree were you working for?

A. No degree. Just to learn enough about mass spectroscopy to do the job that we planned.

Q. Well, then you really just studied spectral analysis, is that correct?

A. Well, no, they are two different things. I

(Testimony of Walter S. Marx.)

didn't study spectral analysis anywhere. My technical training is primarily the result of working in a laboratory and with what little chemistry I did study at the various schools I attended.

Q. Did you do work in physical chemistry, study that?

A. No, I didn't study it. I didn't matriculate in anything like that.

Q. And in this particular field what specialized training at what university did you have?

A. I am not sure what you mean by "specialized training in this field." There are no courses given. However, I think you may refer to the course that I took at the University of Southern California. I enrolled for first year chemistry but worked separately from the class with Professor Smith on work that was specific to this graphic arts interest of mine.

Q. Did you take any specialized training at eastern universities? [134]

A. The specialized training at eastern universities would fall into the same category of interest in the graphic arts discussed with faculty people and graduate students.

My education is a pretty balled up affair, and I am not sure I have gotten across to you just where I picked up the widely scattered bits of information I needed to become what I consider fairly well grounded in this work.

Q. Now, you referred to four methods that

(Testimony of Walter S. Marx.)

might have been used to make Exhibits 79, 80 and 81. A. Yes.

Q. You didn't mention all of the highlight processes that were known in 1936, did you?

A. I may not have mentioned them by name, but they all fall roughly into those four categories.

Q. What about the Bassani process?

A. That was used so little that I hardly consider it worth mentioning. It was a way to jiggle the screen in the back of the camera to get rid of highlights. But it didn't do that, and it wasn't used extensively, and was soon forgotten.

Q. But you don't know whether that might have been used, do you? A. No.

Q. Are you familiar with the process that has been described in the Gerland patent which is here in evidence, [135] where they take two shots on the negative, one with the screen in place and the other without the screen?

A. I thought I referred to that by saying "camera and lens manipulation."

Q. Now, that uses the same screen manipulation that you do, doesn't it, sir, the Gerland patent?

A. It gives us the same screen manipulation that we use, you say?

Q. Yes. Where they take one shot with the screen in place and another shot with the screen removed from the camera. A. Oh, yes.

Q. Now, you don't know whether the Gerland patent was used in any of those exemplars, do you?

A. No, I don't.

(Testimony of Walter S. Marx.)

Q. You don't know that it was used or that it was not used? A. That is correct.

Q. Your company is a business competitor of the Kemart Corporation, isn't it? A. Right.

Q. And it was a business competitor of the Kemart Corporation in October of 1948, was it not?

A. Yes.

Q. It still is a business competitor? [136]

A. Yes.

Q. Do you have in your mind, now, comparative sales figures of the sales of your contracts?

A. Yes.

Q. During the years 1948, '49, '50 and '51?

A. Yes.

Q. How did the sales of 1948 compare with 1949? Or, rather, '49 with '48?

A. '49 was better, a better year than '48.

Q. And how did the year 1950 compare with the year '49?

A. I might simplify this by saying that each succeeding year was better than the previous year in the profit history of my company.

Q. Each year you showed a gain?

A. That's right.

Q. And is that true up to the present date?

A. Yes.

Q. Now, this letter of Mr. McCaleb's which was executed in 1948 on October 6th, you showed that to Mr. Frey, did you not? A. Yes.

Mr. Lyon: I think counsel should make it clear as to which letter of Mr. McCaleb's he is talking

(Testimony of Walter S. Marx.)

about. There are two of them. One was written to Printing Arts Research and [137] one was written to Kemart.

Q. (By Mr. Hoppe): Do you know the letter to which I refer?

A. I thought I did. The letter that was shown to me a moment ago here.

Mr. Hoppe: Yes, sir.

The Court: Identify it by exhibit number.

Mr. Hoppe: What is your exhibit number on that, Mr. Lyon?

Mr. Lyon: RR, if you are speaking of the one to Printing Arts Research.

Mr. Hoppe: That's right.

May I just speak to Mr. Adams for a moment, your Honor?

The Court: You may.

(Whereupon counsel had a conference with his client.)

Mr. Hoppe: That is all.

Mr. Lyon: Just one thing, sir.

Redirect Examination

Q. (By Mr. Lyon): When did you start your company, Mr. Marx?

A. The company was formed in late 1938.

Q. When did you introduce the Fluorographic process? A. Early in 1938.

Q. When did you start licensing it? [138]

A. The fall of 1938.

Q. Well, I want to get a picture of the rate of

(Testimony of Walter S. Marx.)

growth of your business from, say, in the early 1940s until today.

Now, can you tell me how your increments of increased business compared? Were there any especially good years or any especially bad years?

A. No. The years were quite uniform with the exception of the year in which we bought the stock of the Esquire Magazine people. The curve has a little wave that year. But aside from that, the business has gone up by more or less equal increments each year.

Q. When did you buy the Esquire Magazine?

A. In 1941.

Q. Now, referring specifically to, say, 1949, which was between the time this suit was filed and the time that Judge Mathes gave his decision, did your business enjoy any greater or any lesser increase than had been evident in years before?

A. No.

Mr. Hoppe: That is objected to, your Honor, as not being the best evidence. We asked him general questions. You are getting to specific questions. If we want to get into that, I suggest we have the best evidence, the sales figures.

Mr. Lyon: I am just drawing comparisons, your Honor. Mr. Hoppe asked me—— [139]

The Court: It's already been asked and answered, I think, generally; unless you do have the figures, why,——

Mr. Lyon: We don't. Mr. Hoppe asked me to get

(Testimony of Walter S. Marx.)

this information generally. He said he didn't need the figures if I got it.

The Court: You can have it, generally.

Mr. Lyon: I won't get any more specific.

The Court: Very well.

Mr. Lyon: All right. I want to know as to 1950, was the business increase about the same as it had been each year before?

Mr. Hoppe: My objection continues.

The Court: It's been asked and answered. Sustained.

He stated, as I understood him, that it's been more or less uniform, the increase has, year after year.

Mr. Lyon: I see, your Honor. I wanted to make it emphatically and entirely clear. I understand, and I withdraw the question.

That is all.

Mr. Hoppe: May it please the court, I would like to bring a motion to strike the testimony that the increase was more or less uniform, because my questions were most general, and I didn't want to see the particular sales figures. But "more or less uniform" is something which is very ambiguous, and if we are going to get to that detail, the testimony should [140] be stricken in favor of the best evidence.

The Court: Motion granted.

Mr. Lyon: Then as to my questions and the answers, sir,——

The Court: Anything given referring to more

(Testimony of Walter S. Marx.)

than a trend, any detail of the trend, counsel is entitled, as I view it, to insist on the best evidence at any time.

Mr. Lyon: I just wanted to be sure. Is Mr. Marx's testimony as regards the gradual increase still in the record, sir?

The Court: As to over the period.

Mr. Lyon: Yes. Has that been stricken?

The Court: That is not embraced in the motion, is it?

Mr. Hoppe: No.

Mr. Lyon: Then I have no argument.

The Court: It was when you descended to particulars that he wanted to insist on the best evidence, to which he is entitled, in my opinion.

Mr. Lyon: Yes.

The Court: Anything further from Mr. Marx?

(No response.)

The Court: You may step down, Mr. Marx.

(Witness excused.)

The Court: We will take the afternoon recess at this time.

Do you have any further evidence to offer? [141]

Mr. Lyon: No, sir.

Mr. Hoppe: I have one admission against interest to read into the record.

The Court: Very well. We will hear that following the recess. Or do you wish to read it now?

Mr. Hoppe: It will just take me two seconds, your Honor.

The Court: Suppose you do that, and then you

both can have in mind that the evidence is closed and you can think of what you wish to say in argument during the recess.

Mr. Hoppe: From the McCaleb letter of October 6, 1948, which has been received for a specific purpose——

The Court: That's exhibit——

Mr. Hoppe: Isn't that RR?

The Court: The one received today?

Mr. Hoppe: Yes, your Honor.

The Court: Exhibit RR.

Mr. Hoppe: I would just like to read in evidence as an admission against interest the last paragraph of the letter.

"I recommend that all users of the Kemart process, insofar as you are able to identify them, be notified of the existence of your aforesaid patent No. 2191939, its nature and coverage and their infringement thereof."

The Court: Now, is the evidence closed on both sides? [142]

Mr. Hoppe: Our testimony is closed, your Honor.

Mr. Lyon: Yes, your Honor.

The Court: Very well. I will hear you in argument after a recess of five minutes.

(Short recess.)

The Court: You may proceed, Mr. Hoppe.

Mr. Hoppe: May it please the court, I am going to address myself first to this issue of damages.

The Court: Do you have before you the pleading that tendered this issue?

Mr. Hoppe: Yes, I do, your Honor.

The Court: It might be helpful if you all had that in mind in this discussion, just what the issues are that are tendered; that is, the detail of them.

Mr. Hoppe: It appears on page 7 of our printed record in 12948. And in paragraph 19 of the complaint it says,

"Defendant has circulated letters and statements that plaintiff's process, the Kemart process, is an infringement of either or both of the letters patents enumerated in paragraph 3 hereof."

Paragraph 13 states:

"Plaintiff's process known as the Kemart process, including the devices, material, equipment and supplies used in practicing the process which the defendant Printing Arts Research Laboratories, Inc., charges to [143] be infringements of the letters patent enumerated in paragraph 3 hereof do not individually or collectively infringe any of said patents or any claim thereof."

Paragraph 14 says:

"Plaintiff nor any of its licensees has not done any act or thing, and is not proposing to do any act or thing in violation of any right belonging to defendant by virtue of any said letters patent listed in paragraph 3 hereof."

Paragraph 15, from which I read before, further states:

"By reason of such acts and doings of defendant, plaintiff is having great difficulty in doing business with respect to its processes, and some prospective licensees having refused and continue to refuse to

purchase and deal in plaintiff's processes until such charges and claims are eliminated."

In the prayer, paragraph F on page 9 of the record asks for "Damages resulting to plaintiff from defendant's wrongful acts and doings."

And paragraph C on page 8 asks for "Plaintiff's attorneys' fees in connection with this action."

Now, all of those things have been denied, as your Honor will recollect, and it has now been found and it is the law of the case that Kemart's processes do not infringe the Marx claims. So we have a situation where the charges are [144] false.

Now, the question is, are they actionable? And if they are actionable, are we entitled to damages?

Now, the complaint does not state the theory upon which relief is sought. I have treated it as libel and slander. And the reason I have done that is that in Ohio, where the publication took place, it has been held that it is libelous, per se, to charge somebody with infracting — that is the language they used at that time—a regularly granted patent. That case was decided back in 1834 and it is the first libel case that we are able to find of any kind in the State of Ohio.

The Court: I remember you dwelt at some length on that case in the previous hearing.

Mr. Hoppe: Now, I have Sheppardized the case since the previous hearing, your Honor, and the case is cited time and time again as stating the Ohio law on libel. It's been cited on other libels—not on the particular libel we have—but it has been

cited, and it today stands without any tarnish upon it even though it's an 1834 case.

The Court: It would be your position, I take it, that no matter what the circumstances of any patentee accusing anyone in the State of Ohio of infringing his patent, he is liable in damages.

Mr. Hoppe: No, your Honor. I think you have overstated [145] my position.

The Court: Well, I hope to.

Mr. Hoppe: Yes. I think you have overstated it quite a bit.

It is my position that if in Ohio you want to charge somebody with infringing a patent you tell him about it, and you don't tell anyone else. You don't publish it in the trade journals. You tell him about it. And you keep quiet about it until you have been proven to be false or right. It is our position that you have the right to make the publication. You have that right because we have freedom of speech. The Constitution gives us freedom of speech. So you have the right to make the publication. But if you have made it and you have been wrong, you are subject to damage just like you are in any other libel.

The Court: There is no question about that. But if you publish it at all, it's actionable under your theory, isn't it?

Mr. Hoppe: Yes, I don't think you should publish it.

The Court: Suppose there were half a dozen users of this process in Ohio, the Kemart process, and this defendant notifies them preparatory to

bringing suit, that would be actionable if there were no infringement, would it not?

Mr. Hoppe: If it were preparatory to bringing a suit, your Honor, and the letter was a private letter that went to [146] the particular prospective defendant, you wouldn't have a libel because there wouldn't be a publication, your Honor.

The Court: Well, suppose the letter said, "We are writing all users of the Kemart process advising them of their infringement, notifying them of infringement and demanding that they desist or suffer a suit for an injunction in damages."

Mr. Hoppe: Well, your Honor, I'd hesitate to say what the Ohio law would be under those circumstances. And it's quite fortunate that we don't have that case, because I think it would be a very hard case to decide. But we don't have that case here. Here we have a case where at a convention Mr. Marx admitted that he had showed the letter to Mr. Flader. All the witnesses have agreed that Mr. Flader was a leader in the industry. You couldn't have gone to a better man or had a better man to show it to.

Now, Mr. Marx testified that Mr. Flader came to him. Well, Mr. Flader was a man that undoubtedly went around the convention because he was the leader of the industry and he probably looked at all of the booths. But whatever the outcome of that particular publication was concerned, how ever it came about, it can't be denied that the statement was false, and it can't be denied that it was published. Those two things can't be denied.

The Court: How long was that in advance of the [147] commencement of this action?

Mr. Hoppe: That was about a month and a half in advance of the action, your Honor.

The Court: Then the action would be a publication, wouldn't it?

Mr. Hoppe: If that would be true, your Honor, then any libel and slander case could be thrown out by saying, "Well, as soon as you filed your complaint you published the libel so you can't recover."

The Court: No. The question is, "Could you recover any damages except that incident to the publication prior to your own publication?"

Mr. Hoppe: I think we are allowed to collect the consequential damages that flow from republications following the date of the original publication.

The Court: Even subsequent to your own publication of it?

Mr. Hoppe: We didn't publish the libel, your Honor.

The Court: Well, you published it in your complaint in this action.

Mr. Hoppe: No, we didn't, your Honor. That is what they have been saying.

The Court: Didn't you say, "You are accused of infringing and there is a controversy over it," and you wanted a declaration of rights and interest?

Mr. Hoppe: That, we did. But we didn't say that we infringed. We say we have been accused of infringing.

The Court: You published the defendant's alleged libel against you, didn't you? Because you

said the defendant had accused you of infringement.

Mr. Hoppe: Well, that type of publication in actions of this type, your Honor, has been held to be one of the consequences that flow from the original publication; and not only is that not a defense, but according to the cases we are entitled to our expenses for having to put that publication in the papers to try to satisfy our customers.

The Court: Well, I am speaking of the complaint in this action being the publication.

Mr. Hoppe: No, I don't believe so, your Honor.

The Court: You publish it to the world, don't you, when you file a public document like a complaint?

Mr. Hoppe: Oh, I suppose theoretically you do, your Honor.

The Court: And how long after the defendant's showing of this letter was the action commenced?

Mr. Hoppe: It was commenced as soon as we could, within six weeks.

The Court: Then, are you entitled to any damages *other those* that accrued, or may have accrued between the time?

Mr. Hoppe: I would say yes, your Honor. I haven't [149] come prepared for that particular question.

The Court: The thought that is going through my mind is how could you distinguish between the damage that was caused by showing the letter at Cleveland and the damage that occurred after the filing of your complaint?

Mr. Hoppe: Well, let's get back to the fundamental principle we had in the old Squid case that we all recall where somebody takes the squid and throws it. You can't tell which toss of the squid is the one that actually caused the damage. But you presume that it's the first one.

Now, this thing all started with Mr. Marx. If Mr. Marx had not made his publication in Cleveland, it wouldn't have been necessary to bring the suit. And it wouldn't have been necessary——

The Court: Oh, just a moment. Now, just a moment. Suppose that Mr. Marx had said nothing about the letter and had refused to say a word, but the letter was in existence. Who can say but what Kemart would have brought the declaratory judgment action?

Mr. Hoppe: We can't say, your Honor. But that is not the case.

The Court: Because the threat had been made to Kemart. There is no evidence that the publication of the letter to other people had anything to do with the commencement of the action, is there?

Mr. Hoppe: That is what brought it about, your Honor. The complaint says——

The Court: Well, can we say that? Or must we not say that there was an actual controversy, presumably, between these parties which was the predicate upon which the action was based. And it would have been the same situation whether anyone had ever quoted the letter or not.

Mr. Hoppe: Well, again, it's one of those things that didn't happen. And we don't have to make con-

jecture here. We know what the facts are. We know that there was a publication because the publication has been admitted.

The Court: Yes. I am referring now to the damage flowing from it; whether any damage resulted from it or whether the damage resulted, if any damage there was, from the commencement of the action.

Mr. Hoppe: Well, now, if your Honor will recall in that connection, the licenses that the Kemart Corporation had provided that the Kemart Corporation would hold its licensees harmless from any suits for patent infringement. And this letter which was published said that the licensees should be told about this infringement. So, we don't have room to guess what would have happened if the publication hadn't been made.

The Court: Well, a good-faith notification to these licensees was perfectly proper, wasn't it?

Mr. Hoppe: Well, a good-faith notification to the licensees themselves and not published undoubtedly would have been proper. But we are not talking about that, your Honor. We are talking about a different situation. I would like to talk about the lawsuit that we have here rather than some other situation.

The Court: Well, we test it by extreme cases. Suppose this defendant had asked Kemart to "Give us the list of your licensees," and Kemart, very naturally I suppose, would not do that. So the defendant puts an advertisement in the next issue of the trade bulletin, and says, "Notice to all Kemart

licensees: We have asked Kemart Corporation for a list of your names in order that we might advise you privately of this, but that has been denied to us. So, you are contributory infringers of this patent and we must take this means of notifying you that if you continue your use that you may expect to be sued."

Mr. Hoppe: In my opinion, that comes clearly within Watson versus Trask and there would be no doubt, under the holding of that case, that there would be liability.

The Court: And good faith would have nothing to do with it.

Mr. Hoppe: Good faith has nothing to do with it in Ohio. That's my position, your Honor. And I would like to argue that that is our position on one reason that we are entitled [152] to damages.

The Court: In other words, it's your position then that in this type of situation, at least in Ohio, that if there was any publication at all, it's actionable.

Mr. Hoppe: If it's false, your Honor.

The Court: If it turns out to be false,——

Mr. Hoppe: Yes.

The Court: ——and if there is an adjudication of non-infringement, why, that's an adjudication of falsity, isn't it?

Mr. Hoppe: That is my position on the Ohio law. And I have Sheppardized Watson versus Trask; and I have also looked at all of the Ohio cases on patent libels and there are only four where the man that made the charge was left off the hook.

The Court: That is argued rather fully in your brief that you filed before, isn't it?

Mr. Hoppe: The Sheppardized part is not argued, your Honor. But I would like to send my briefs to you that we had in the Court of Appeals on that, because our record here is quite along the same lines of the earlier record.

The Court: I would be glad to have them.

Mr. Hoppe: Then I would like to send you our opening brief and our reply brief. And I haven't changed my view.

The Court: I thought I had them, but my bailiff searched [153] for them, and apparently I don't. Usually the clerk of the Court of Appeals sends us a copy of matters like that to be filed, if there are enough copies available for that purpose.

Mr. Hoppe: Well, we do have extra copies, your Honor.

Now, I would also like to approach this, because we don't state a theory from the unfair competition angle because defendant says, "Well, it isn't unfair competition to do this." So let us assume that the cause of action, instead of being a cause of action for libel and slander, is a cause of action for unfair competition. Now, in that, your Honor, I will admit that if it is only actionable as unfair competition and if it is not actionable as libel and slander, I will admit that if we are in that position — and I will save counsel the argument on it—the existence of bad faith is a sine qua non to an unfair competition situation. I will concede that.

Now, do we have bad faith here? And I would

like to direct your Honor's attention to several things which are, in my mind, very indicative of bad faith. Your Honor will recall when the depositions were read that as late as April 1st and 2nd of 1949, Mr. Marx had conceded that he had never seen a piece of Kemart copy. Your Honor will also recall that in that same deposition on April 1st and 2nd, 1949, Mr. Marx was of the view that in the highlight areas of the Kemart copy — this is not seen — that the Kemart copy reflected ultraviolet [154] light. He said that on April 2nd in his deposition in 1949; not the equivalent argument that was before your Honor on the first trial, but at that late date, with all of this material he'd read, he was so careless that he still thought that the Kemart copy reflected ultraviolet light from the highlight areas.

Now, we say, your Honor, that when a person makes a charge of infringement, either with or without a letter of an attorney, when he hasn't even looked at it before he makes the charge that that isn't good faith.

And I would like to go on with what I think is more reprehensible than that. That was something that affected us directly. But I think the next thing, and it is this Exhibit J which was presented to your Honor as being typical of the problems that confronted the art in 1936, and I have never seen a more atrocious thing in my life than that—one of the papers, apparently, isn't even a United States paper, and this other thing, you can see a person really had to hunt for that, when we brought forth

contemporaneous exhibits showing that at that time the art had progressed to the point where there were very, very attractive highlight drawings. And in evidence here, your Honor, we have examples of the Fluorographic art right here that were in evidence before, and they are every day as good—that is, this prior art in 1936 was every day as good as the Kemart—— [155]

The Court: Wasn't the record at the trial something to this fact: "Yes, you could produce those things but it was not economically feasible"; that either the dots had to be cut out or carved out of these ink plates or painted off the negative of the film, or done by hand in such a way it was not economically feasible. Wasn't that the status of the record?

Mr. Hoppe: That was some of the record, your Honor. But Mr. Marx today admitted that he couldn't tell they weren't made by the Gerland process and he couldn't tell that they weren't made by the Bassani process, both of those processes. And it's been shown here that it didn't require that hand etching.

But that isn't the point, your Honor. The point is that he said that this is the trouble the people were having the trouble is this, and they weren't having that trouble. And, as you can see, it was economically feasible because in January 1936, at random, we have all of these. Take a look at this, your Honor.

(Whereupon counsel handed the document to the court.)

Mr. Hoppe: That is everywhere as good as anything that Marx has presented as showing of his process.

The Court: Yes. Well, I had the impression that the testimony at the trial was that this result could be achieved, but that the virtue of the Marx process was the [156] economy with which it could be achieved, so that instead of special advertisements having the highlights without the dots, that every advertisement could have it. And that the ordinary newspaper advertisement could have it.

Now, you have been over the record. I have never been over it since the trial. But I just have that impression, that the slick paper magazine such as the—what is it, the Delineator, or some of those—that advertises in such publications could afford to eliminate the dots by the cruder method, shall I say; but that the Marx method made it available to all manner of publications. At least, that is my impression of the virtues that were extolled at the time of the trial.

Mr. Hoppe: That is exactly why I took some newspaper pictures, your Honor, because the record does leave that inference. Here just in one month's issue we find, even on something where an advertiser isn't paying for it, "Fashions up to the minute by Trunella Wood—" we have the highlight negatives just in the regular newspaper work.

And that is the point, your Honor. They did oversell this case to your Honor. Of course, if the advance over the art is extremely great, a court feels

justified in applying a very wide range of equivalents.

The Court: Well, according to the Court of Appeals no amount of range of equivalents would be broad enough to make Kemart an infringer, as I read it. [157]

Mr. Hoppe: That is right. Because they didn't get claims that were broad enough to cover this. Your Honor will recall the claims were very narrow that they got, and it was partly due to this type of evidence that undoubtedly led the Patent Office—that undoubtedly the Patent Office knew about, because those men are skilled in this art, that they wouldn't give Marx the kind of a patent that he tried to tell the court he had. The Patent Office refused to give him that kind of a patent. And so he was entitled to the range of equivalents which he urged upon your Honor. The Court of Appeals said he wasn't entitled to any.

Now, that is part and parcel of what we say is a malicious thing which was done in this case. Undoubtedly, if your Honor had seen at least one prior-art thing that was better than that, your Honor, I am certain, would not have been swayed to grant the judgment that was granted in the first instance.

The Court: I had the impression, as I say, that it could be done. It was just a matter of utility, economic utility, or economic availability, shall I say, of the result.

Mr. Hoppe: Well, your Honor can see that even

that impression—if that was your Honor's present impression of the record; I didn't get that impression of the record, but assuming that was your Honor's impression of the record—this disproves that because it shows that the newspapers at [158] that time were able to do it, and they wouldn't have done it if it hadn't been economical.

The Court: The reason I say this cautiously is that I have read the opinion of the Court of Appeals again, and I wanted to be sure that my recollection of the record was correct, and I didn't merely get this impression from reading the Court of Appeals.

The court mentions the fact that "the halftone method of reproducing wash drawings is old in the photoengraving art." This is 626 of 201 Fed. 2d.

"* * * In the prior art this dot pattern was eliminated by physically routing out the raised dots on the printing plates with a hand tool or machine, or by painting out the dots on the negative. Another method was masking the tone areas of the copy with a substance which made these areas relatively nonreflective of light, and then timing the halftone exposure with reference to these areas of weak actinic value so that the unmasked highlight areas would be over-exposed and the dot pattern in the highlights obliterated. All of these methods required skilled labor and were expensive, time-consuming, and imperfect. Still another method involved making the usual halftone exposure, then displacing the screen and making a second exposure."

Apparently the Court of Appeals had that im-

pression, too. I had the impression, not that this couldn't be done, [159] but it couldn't be done as economically; that what the Marx process did was to achieve, if you please, the result, the desired result, by an improved method and a more economically efficient method.

Mr. Hoppe: Your Honor, I have no dispute with that at all. The point that I am making is that in trying to sell this case — when you use documents like this, when the contemporaneous newspapers show that it was economical enough to have it in the daily papers, that there is an overselling very much like if you say you go to Dartmouth because you think it's more acceptable to go to Dartmouth. It's that typical overselling that Mr. Marx had when he expressed his education. It's just trying to override things, override the facts, make the story a little better than it is. That's what I think. We have all been the victims in the first case; just steamrolling this whole thing with one little thing after another.

And the next thing I was going to go to is this educational situation, where in that one exhibit they put in evidence they said—and Mr. Marx has just conceded now that he didn't even have these educational requirements—in this Fluorographic article, Defendant's Exhibit OO which was put in evidence before your Honor, they said, "Mr. Marx' technical training has been unusually comprehensive. It includes, after specialized training in eastern universities, postgraduate [160] work in spectral analysis and physical chemistry."

Well, he never even graduated, so he couldn't have taken any postgraduate work.

The Court: Well, that was all brought out at the trial.

Mr. Hoppe: I realize that, your Honor.

And then when you think that he was the only witness that they had, you can see the effect that it had on the case.

And I would like to go on beyond the trial, when we came to that matter of the supersedeas bond, your Honor, when Mr. Adams and Mr. Maxfield were down here and said they couldn't raise that kind of supersedeas bond; and your Honor will recall that in the affidavit Mr. Marx said, "Well, let them go into bankruptcy if they can't afford it."

Remember, these were competitive organizations. "It is better for them to go into bankruptcy forthwith if they can't raise that kind of a supersedeas bond."

The Court: Well, I don't remember how it came out, but I remember there was a great disparity between the amount asked and the amount which the plaintiff conceded it could raise. And then, as I recall, the amount fixed was relatively low.

Mr. Hoppe: And your Honor will recall that even to raise that, that the poor Kemart Corporation was in such bad shape financially that it almost did go into bankruptcy, and [161] had to go into that contract which your Honor was of the view that it was usurious. But, nevertheless, in order to stay in business they had to do that. So it shows you how this company which was right on the rocks,

as your Honor found and as Mr. Marx said in his paper at that time, "Let them go into bankruptcy," that they were saved just because somebody was willing to take a gamble.

Let's go on to the next piece of bad faith, your Honor. And that was, in an effort to minimize damages in this case, we changed our procedure so that we weren't using what anybody could say was ultraviolet light only. We brought a motion to modify the injunction so we could use this blue light. And they even opposed that. And in their affidavits they pointed out that we shouldn't even be able to do that.

You will remember that we had that light sample where we had very light blue light, and we compared it with the purple light, and, according to some curves Mr. Marx had in there, we had almost 30 per cent visible light in the light that we were illuminating the copy with. And Mr. Marx even opposed that.

Then, after the litigation was over, you will recall that Mr. Adams testified that Mr. Frey, who is still a salesman, had told him that, "We still got a customer away from you on the basis of this infringement." [162]

And Mr. Youngdahl testified that on the road Frey asked him, "What are you going to do when you get out of a job, when this company goes under?"

So we don't have here, your Honor, an ordinary, everyday, patent infringement suit. We have a situation where the evidence was always overstated a

little bit but maybe not enough to be perjury, but just enough so that when you add up all of these little kernels you get an impression of a factual situation that doesn't exist; where you have a letter that they hold out, from their attorney, and it isn't even from an outside attorney, it's from an attorney who is president and stockholder of the company. I daresay they couldn't even have obtained a letter from outside counsel if they'd known all the facts, because the claims in that patent were so strictly limited, your Honor, that as a matter of law it was held that there was no infringement.

The Court: Of course, we know all that now. But I wasn't deceived on the facts. I just made what the Court of Appeals has declared to be an error of law. And with all deference, I have to tell you that I still believe the Court of Appeals is clearly wrong in this case. Because I didn't conceive that there was any particular range of equivalents. I didn't get to that.

To my mind, Kemart was substituting a more inefficient method, a step in the process, that was like Rube Goldberg, [163] one of Rube Goldberg's things. Instead of going from A to B, Kemart Company was going around from A to O to B in order to try to avoid infringement. That's the way it appeared to me then, and I haven't seen anything, frankly, that appears any different today.

Now, I may misunderstand it. But I don't want to sit here and appear to have great knowledge of all this and have you argue under a misapprehension. I still think—and I told Judge Bone so—that

the Court of Appeals is dead wrong in this case. I have been reversed in several patent cases. I have never said that about any other patent case in which I have been reversed, because I've never felt that there wasn't room for differences of opinion. But I am an unreconstructed rebel as far as this case is concerned. And I read it again since this hearing started. I suppose I have read this opinion more than any other opinion in any case in which I have ever been reversed. Because I am trying to understand the Court of Appeals. And I still don't understand them.

Mr. Hoppe: Well, then, your Honor, under those circumstances, I think I had best rely my case on Watson v. Trask and not try to persuade your Honor on the malice. But I would think, your Honor, seriously, that when a person, regardless if you think he is right or wrong, when a person overstates evidence on the stand and when a person overstates [164] his educational qualifications, and when a person expresses the view that he thinks his competitor ought to go into bankruptcy if he can't stick it out, when he opposes an effort to minimize damages by *an over* even what your Honor would have thought was the construction of the claims at that time — when he does all those things, your Honor, I think, regardless of what a person thinks the facts were in the first case, that that party has shown that he is malicious. I say that, your Honor, advisedly. But I say, regardless of what your Honor thought the facts were, that those things, which may or may not have been controlling, indicate a

malice at least in law—maybe not an actual malice but certainly it indicates a malice.

And when during the course of the trial in June 1950 they publish a little statement in the press saying, "We are going to go to the trial pretty soon"—another little scare item—they didn't have to put that in the papers. We have got that in evidence. That wasn't in evidence on the first case.

I say, your Honor, regardless of what your Honor thought the facts were in the first case, that that type of conduct is the type of conduct very unbecoming of a litigant.

The Court: Well, I have no sympathy with competitors trying their cases in the trade journals or anywhere in the trade. But on a question of malice, is there anything more [165] here than the feeling normal between two hot competitors?

Mr. Hoppe: Well, your Honor, I know that I personally — and you are not supposed to argue from personal experience, but I say this because of the question you ask — I personally would never send out a letter of infringement to anyone unless I had at least looked and had my client look at what they were doing. And Mr. Marx said on April 2, 1949, "I have never seen what purports to be Kemart's copy."

The Court: But they thought they had an understanding of what it was.

Mr. Hoppe: They demonstrated that they didn't have that, your Honor. That is the point I am making.

On April 2, 1949, Marx said, "This reflects ultra-

violet light from the highlight areas," and your Honor will recall that it was stipulated at the trial, when they finally found out how it worked, that it didn't reflect ultraviolet light; that what it did was emit visible fluorescent light from the highlight areas.

The Court: That is what the blue light would have done, too, isn't it?

Mr. Hoppe: Yes. But the blue light would have been excited partially by the ultraviolet light and partially by visible light.

The Court: It seemed to me there was no virtue just to emit some more visible light. In other words, to dilute your [166] ultraviolet light would only make the process more inefficient and shouldn't affect any common-sense determination of the infringement issue.

Mr. Hoppe: Well, when you have claims that read "ultraviolet light only," your Honor, that means what it says, "ultraviolet light only."

The Court: That means the efficacious light is ultraviolet light only. That is the way I would so construe it.

Mr. Hoppe: They asked for claims on just plain ultraviolet light, your Honor, which would be the efficacious light. Your Honor will recall that the Patent Office said, "You can't have that because we won't give you that kind of a patent."

The Court: On ultraviolet light only?

Mr. Hoppe: No. They asked for some claims on ultraviolet light. They asked for claims without the word "only," if your Honor will recall, which is the

way your Honor is now construing the claim, saying that "ultraviolet light" doesn't mean ultraviolet only, but it means that that is the efficacious light.

The Court: Of course, I do agree with the Court of Appeals that the claims could be more specific as to where the "only" applies; whether it applies at the point of the negative or whether it applies at the point of the wash drawing, or where it applies. But we don't write the specifications. [167] We have to do the best we can with what we have. I mean, we don't write the claims; we interpret them in the light of other matters, specifications and drawings appearing in the letter.

Mr. Hoppe: Your Honor, that's entirely true. But also we construe them, when the Patent Office refuses to give you the type of claim that you later say that you have, you also construe them in the light of that. And Mr. Marx knew; he knew when he made the charge because he prosecuted the case partially himself, and he knew that he had some claims in there that called for ultraviolet light only on the copy. He knew that. He couldn't have helped but know that. It was his case.

The Court: Oh, the file wrapper was here.

Mr. Hoppe: Yes, and he knew it. The point is that he knew that he had tried to get claims with "ultraviolet light only" on the copy, which is the way they persuaded your Honor to construe the claims, and he tried to get claims like that, but the Patent Office said, "You can't have that. You are not entitled to that, Mr. Marx."

Well, Mr. Marx knew that, but your Honor didn't. And that is why——

The Court: The file wrapper was here.

Mr. Hoppe: Yes. But I tell you, your Honor, it takes years and years of study to learn how to read one of those [168] file wrappers.

The Court: Well, litigants are in a very bad way by having judges pass on them without knowing how.

Mr. Hoppe: It's a difficult thing. And that is something they tried to sell your Honor. This isn't anything Kemart sold your Honor.

Now, look at what the consequences that flow from it are. Kemart had to fight a complicated lawsuit which it should never have had to fight in the first place.

The Court: Well, that is true of the victor in any case, isn't it?

Mr. Hoppe: Yes, but in a patent infringement——

The Court: I have never seen a patent case yet that was not complicated with something. And they are usually more or less bitter because they involve competitors. And while competitors may be—as Mr. Adams, I thought, very well described it here—they are very civil to each other but they aren't really bosom pals, you know; they are competitors.

Mr. Hoppe: Well, if I could just leave you with one parting thought, your Honor, and that is, that regardless of whether one can sift the facts out of the case as they actually are—and you can sift the facts out of the record; there is no question but that

they are siftable—that the aura which was given to the facts, which was contrary to the facts, is very much like they were in the case that the [169] Supreme Court termed a very sordid situation. And I quote that in the Hazel-Atlas case which is in 322 U. S.

The Court: I am very familiar with the Hazel-Atlas case.

Mr. Hoppe: In that case, your Honor, the only thing that the litigants did—they had a publication that was wholly truthful, and they ascribed the authorship of the publication to a union official, and the publication was actually the work of a lawyer. And the Court held that using that as evidence was sordid.

The Court: That was manufactured evidence, really manufactured.

Mr. Hoppe: That was manufactured. And it wasn't manufactured any differently than Mr. Marx' educational qualifications were in this case.

The Court: Well, on these occasional things—that was gone into in great detail. You know, people puff about things. Salesmen puff about their wares, and experts puff about their qualifications.

All of it reminds me of advice I have often given young people who say to me, "Why do I need a degree? If I learn everything that is to be learned in college, what difference does it make whether I get a degree?"

And my answer to them is, "So you won't have to spend the rest of your life explaining why you didn't get a degree." [170]

And I suspect that Mr. Marx, if he had it to go over again, he would put some extra licks somewhere, and he might not learn any more but he wouldn't have to make these explanations about what he considers irregularities in his education.

Many people can't go right straight through college, you know. There are economic factors involved, and they can't do it.

Mr. Hoppe: They don't say that they did postgraduate work then, your Honor.

The Court: You know, I was thinking, while you were arguing, of a situation I saw not long ago. It was a photograph of a man called "in the class of so and so." And he was claimed by the school as being in the "class of so and so." And he wasn't in the "class of so and so." He would have been in the "class of so and so" if he had gone three years, but he only went one year. But he's claimed by the school as a graduate of the "class of so and so." He entered three years previously, and if he had gone three years and had graduated he would have been in the "class of so and so." But he went only one year. I know that of my own knowledge.

And I thought to myself, I suppose that's excusable. It's saying something nice about someone. And if they didn't say that they would have to run a paragraph and say he entered in nineteen so and so and only went one year, but if he had finished he would have been in the "class of so [171] and so." And so instead they just put "Class of '93" or whatever it was.

Mr. Hoppe: But you certainly wouldn't have

said about that man that his education was unusually extensive, or you wouldn't have said about him that he had done postgraduate work after he had been in the "class of so and so."

The Court: No. I certainly don't condone, particularly from the witness stand certainly, any puffing of that nature. But it's not unusual for experts.

I tried a condemnation-of-land case here a couple of weeks ago and had about six or eight experts, and to hear them tell of their qualifications to the jury — all of them we have to shut off sooner or later because they just keep going and going. Well, that isn't a criticism, necessarily. They want to impress the jury and they want to put their best foot forward.

You are correct. You characterized it as a selling technique, and that is what it is, a selling technique. But so is advocacy in the last analysis.

Mr. Hoppe: Yes, we are salesmen. I am trying to sell my client's case to you right now. And I am trying to get a sale today. But I can see that I'm not.

The Court: Well, I am not indicating any ruling in this matter. But I didn't want you to argue under the theory that I have been able to change my views about this [172] case.

And I don't have a closed mind on it, either, I hope.

Mr. Hoppe: Well, I am sure that your Honor has an open mind because I have enjoyed watching the hearings and enjoyed all the hearings we have had thus far. And I am enjoying this one.

The point is that you and I do not see eye to eye on what is and what is not malice. That is one thing.

And you and I, I think, part company on the necessity for malice.

The Court: Well, I think we are agreed on the necessity for malice, aren't we? You say it is an essential element of the unfair-competition claim, but not the libel.

Mr. Hoppe: That's right. Not the libel claim. And on that I rely upon Watson v. Trask.

The Court: The Ohio law.

Mr. Hoppe: The Ohio law.

The Court: Then there is no question but what the falsity of this charge has been finally and fully and completely—that is, the charge of infringement against Kemart — has been finally adjudicated in Kemart's favor?

Mr. Hoppe: I think we can accept that as a datum point.

The Court: I don't see how that could be disputed, could it, Mr. Lyon?

Mr. Lyon: No, your Honor. [173]

Mr. Hoppe: Now, your Honor, I have a photostat here of the Watson v. Trask case, because I noted that it was not in your library here.

The Court: Well, I would be glad to have it. It's in the County Law Library. We have an excellent County Law Library.

Mr. Hoppe: Yes, it is. I have checked, and it is over there, your Honor.

And I would like to have the privilege of sending

your Honor our briefs that we had in the Court of Appeals in this matter.

The Court: I would be glad to have them.

Mr. Hoppe: My argument there is substantially the same as I have just made to you now, except that I have a little more factual presentation of the facts that are pointed out in the briefs.

Thank you, your Honor.

The Court: Will you hand that reprint to the clerk? Or will you submit it in the brief?

Mr. Hoppe: I will hand it to the clerk right now, your Honor.

Mr. Lyon: Your Honor, am I to understand you are not prepared to rule today in this matter?

The Court: No. I want to consider it some more. Frankly, I want to see if I can agree with Justices Stephens, [174] Healey, and Bone. I have the greatest respect for those gentlemen; and, of course, for all the judges on the Court of Appeals. But I am referring essentially to those three.

I have never had a case reversed—and I have had my full quota—other than this one, where I couldn't ultimately convince myself that there was some ground for the appellate court doing what it did. This case has always disturbed me.

Mr. Lyon: It disturbs me.

The Court: Maybe I oversimplified the facts. But to me it was not a question of equivalents. It was just a question, as I viewed it, that Kemart had taken one step of the process and had substituted an inefficient way for an efficient way of doing it and achieved the same result. Now, I may have mis-

conceived it. I want to study that. In other words, I want to try in my own mind, and for my own satisfaction, to some extent the original case. Not that I could change the result. I can't, of course. The result is there. But I would like to see if I can reconcile myself as to the result.

Mr. Lyon: Do you want to hear from me at all on bad faith? It seems to me, as far as the bad faith is concerned, and I may be wrong, but I don't think it would make any difference whether or not you finally became reconciled to this Court of Appeals rule of law on infringement. If you want, [175] I will be glad to speak on it.

I think Mr. Hoppe has largely overemphasized and overstated the very few points that he raises. I can look through any record and pick out a few mistakes and make them sound very good.

The Court: I will hear what you have to say on it. I would like to hear from you, either now or in a memorandum, on this question of the Ohio law. That is a very interesting point that Mr. Hoppe makes, that this charge of infringement is libelous per se under Ohio law and that, it having been adjudicated finally that the charge was false, that under Ohio law such damages as proximately flow from that libel, Kemart is entitled to, irrespective of anything else.

Mr. Lyon: I am satisfied of one thing, regardless of Ohio law and regardless of whether it applies——

The Court: It would apply to a tort committed in Ohio.

Mr. Lyon: Provided it doesn't override and render inefficacious Federal statutory law, which I propose any such construction as Mr. Hoppe contends for it would do.

Mr. Hoppe: I would agree with that, that counsel is right there, that the Ohio law would not override Federal law. If there is a Federal statute to the contrary, I would say Mr. Lyon is right.

The Court: I take it your position is that this publication was not even in purported compliance with any Federal [176] statute.

Mr. Hoppe: That is correct.

Mr. Lyon: I think possibly we need first a little background on this ordinary situation we find when competitors are squabbling over patent rights. You will recall, your Honor, that when Mr. Marx gave Mr. Adams the letter to see, charging patent infringement, and then left, Mr. Adams had lunch with one of the men that Mr. Hoppe claims the libel was published to by Mr. Marx. And Mr. Adams admitted yesterday having told this man all about it before Mr. Marx ever talked to him about it. This is Mr. Mertle.

He then went to Mr. Marx and asked what it was all about and got to see the letter. But Mr. Mertle knew all about it. Mr. Adams had told him about it.

Now, the other two or three—after much cross examination yesterday I couldn't get Mr. Adams to remember whether or not he saw them or spoke to them about this matter before they went to Mr. Marx and asked Mr. Marx about it. I don't know

how they found out about it. I don't know. It's reasonable to assume they found out about it from Mr. Adams, because he showed no hesitancy at all about telling Mr. Mertle about it.

So we have got to remember that the publication, the original publication, if publication it were, was made by Mr. Adams of the Kemart Corporation and not by Mr. Marx of [177] Printing Arts Research Laboratories.

The next step was Exhibit 60, the letter which Mr. Adams said they prepared and sent to every one of their licensees and all the potentail licensees they could think of. And Exhibit 60 tells the whole story about the charge of infringement.

The next step brought the suit. They published it twice before: once before Printing Arts Research could ever be accused of publishing it, and once afterwards. So three times they have let it go.

Now, the fourth time, and this is where it got into the newspapers, they sent the whole story to the newspapers and had the Photoengravers' Bulletin actually print and publish that same letter that they had sent to the trade, telling all about this charge of infringement.

So we have four instances of publication. I shouldn't say four "instances" but four times when publication was made by Kemart; and three of those when it was generally sent out to the whole trade.

Now, that's the background we have for the application—if we should apply it—of Watson v. Trask. Now, Watson v. Trask, this Ohio case, in

very broad language states in an opinion, "A false charge of patent infringement is libelous per se." The case involved no question of privilege. The matter of privilege wasn't there. It involved no matter of [178] bona fides. We can assume from that case that the charge was false, and knowingly false.

The case did involve a campaign, a total campaign, to defame and destroy an individual's reputation, because other things were said about that individual. So that case has no bearing here, unless we take the bald proposition, that apparently Mr. Hoppe takes, that one statement in that case, the charge of patent infringement is libel per se. If that is all there is to it, there could be no good faith and no privilege arising out of the interest of the parties. I don't know why Mr. Hoppe hasn't explained that other than to say perhaps it wasn't pleaded. Neither did he issue a formal pleading of libel in the first place.

Now, as far as the privilege is concerned, privilege is a well-known and well-understood defense to a charge of libel, and it largely involves whether there is a legitimate interest in the alleged publisher and a legitimate interest in the alleged publishee; and certainly those are present here. In fact, at least one of these men was told by Mr. Adams about it. I don't think, so long as there is good faith, there is any question of privilege. And every court in the United States so holds, if they consider this as having anything to do with libel or not; and very few of them do. No case, cer-

tainly, in Ohio has ever suggested that Watson v. Trask stands for as broad a proposition as Mr. [179] Hoppe seems to think.

I think privilege is manifest here. The United States Supreme Court, in the Virtue case, has made it very clear that a bona fide publication of a notice of patent infringement is perfectly all right so long as the charge isn't knowingly false. So does the Ninth Circuit in the Celite case. So does every case that is ruled on. So does Corpus Juris.

Now, I would like to talk just a little bit on the matter of whether Mr. Hoppe's interpretation of Watson v. Trask would override Federal law.

The Court: Well, he conceded that it did not.

Mr. Lyon: I beg your pardon?

The Court: As I understand Mr. Hoppe, he conceded that it can not.

Mr. Lyon: But I want to talk just a little about how I think, if it were allowed here, it would. In other words, if Watson v. Trask were interpreted as Mr. Hoppe would have it, it would override Federal law. And the reason is this: The patent statutes provide in the case of articles and machines that notice of patent infringement must be given in order to collect damages.

Now, Mr. Hoppe answers in his brief that this is a process patent.

Well, we go to the statute on damages. And how have our Federal courts construed that? They have determined [180] treble damages against a willful, wanton infringer.

How does a person become a willful, wanton in-

fringer unless he has notice of that infringement?

The Court: If I understand Mr. Hoppe's position, it is that Printing Arts is properly under the Federal statute if given requisite notice, but didn't need to tell anyone else.

Mr. Lyon: Let's take the users. Those are the ones that ultimately become infringers.

The Court: This is a charge of publication to people who are not users or licensees, as I understand it.

Mr. Lyon: Except in one instance, I think we can say they were. The two Pitman men, Lattimer and Schmidt, are suppliers and, therefore, likely contributory infringers.

Mr. Mertle, who was the original one who heard about this, and heard it from Mr. Adams, is in the record as a consultant who tells people how to do these processes, and certainly Mr. Mertle is an inducing infringer if he sets up the Kemart operation.

The only one who can be said not to be a potential infringer was Mr. Flader. Mr. Flader was editor of the Photoengravers' Bulletin. It is his business to know about these things. He asked about it. His interest is such that obviously such a communication to him would be privileged. In other words, privilege in a trade libel, is, number one, the speaker or the publisher must have an interest, and the [181] received must have an interest, and it must be a proper type of communication.

The Court: I suppose the publisher of a trade journal would want to know all the gossip. But

that wouldn't privilege the publication of a libel to it.

Mr. Lyon: I beg your pardon?

The Court: That wouldn't privilege the publication of a libel to it.

Mr. Lyon: Under these circumstances, yes. The libel had been told to Mr. Mertle. He came and asked about it. We didn't volunteer it.

The Court: Wouldn't that go to the question of damage, whether it had been previously published?

Let's simplify the case. Take this man who is editor of the trade journal. Suppose he comes up and whispers to Mr. Marx and says, "I hear that you are accusing Kemart of infringement and you are going to sue them."

Mr. Marx says, "Yes, they are infringers, and we are going to sue them."

And this man who gathered such gossip and information, that is his business, as you say, and he goes off and prints it——

Mr. Lyon: Yes, sir.

The Court: ——or he publishes it to others. Is that a privilege by any stretch of the imagination? Is that a [182] privileged communication because this publisher of a magazine likes to get all the trade gossip he can?

Mr. Lyon: I think so, yes, sir.

The Court: Every newspaper is interested in every bit of information it can print.

Mr. Lyon: If it's a legitimate good-faith story about the trade, this particular photoengraving trade, certainly.

The Court: Of course, what the trade paper would publish would be true, namely, that Printing Arts accuses Kemart of infringement, which is true, and states that it intends to sue Kemart, which is true, and the licensees.

Mr. Lyon: The difficulty here is that when your Honor poses a question, "Is the publishing of a libel thereby privileged?" the word "libel" has an ugly connotation.

The Court: According to this Trask case, this has been adjudicated a libel, hasn't it.

Mr. Lyon: I propose that the Trask case does not stand for the broad interpretation that Mr. Hoppe puts on it. It was an 1834 case. It was before Hotchkiss v. Greenwood. We didn't have a rule that invention was required. We had a very simple economic society. And, presumably, a man who infringed a patent then was a pirate, an economic evildoer.

Now a fellow who infringes a patent, according to some decisions in the Supreme Court, is promoting public policy. Justice Black said, in the National Lead case, that an [183] industry without patent litigation is a sick industry. The whole aura surrounding the patent system is so different now than it was 120 years ago, I can't believe Ohio would say that accusing a man of patent infringement and publishing it is libel.

The Court: What you are saying, in effect, is that, whereas it might have been libelous per se in the context of 1836, that it's only libelous today if it is maliciously done.

Mr. Lyon: That is correct. Now, I will concede that no Ohio case since 1834 has so stated. But, on the other hand, there has been no Ohio case which has applied any such doctrine since 1834 as Mr. Hoppe contends for it. But it is completely outdated, completely out of line with modern economic thinking; and particularly as regards with the patent system. The very thought that saying a man infringes a patent can be likened to accusing him of being a felon, and one of the various libelous per se manifestations, sounds ridiculous.

The Court: What about this situation: What about making a false charge of infringement against a competitor with the idea of hurting the competitor's business? Is that malicious? Does that add up to malice?

Mr. Lyon: That depends on whom we are talking about.

The Court: We are talking about competitors. And we [184] are taking into consideration the normal feeling that competitors have toward one another, which isn't to help each other's business. One wants to take the business away from the other. So in that context we have one competitor making what has been adjudicated to be a false charge of infringement——

Mr. Lyon: But in good faith.

The Court: ——against the other.

Mr. Lyon: In good faith he thinks it's an infringement.

The Court: He thinks it's an infringement.

Mr. Lyon: That is what I mean by "good faith." He honestly believes it.

The Court: He thinks that it wasn't willfully false. He didn't make it knowing it was false, but he made it in the spirit of injuring the business of the competitor.

Suppose he did it in the competitive spirit of taking away business from his competitor, an innocently false statement made in that atmosphere. Does that require a finding that it was maliciously made?

Mr. Lyon: I think we have to find out who he said it to.

The Court: He said it to people in the trade.

Mr. Lyon: Would those people, if they used the competitor's process, be themselves infringers or just buy it from them?

The Court: Take the editor of the magazine, who is [185] interested in spreading news of the trade, what he calls news, that may include very damaging documents.

Mr. Lyon: No, I don't think that is malicious, because the purpose of the Photoengravers' Bulletin is to get news; get the warning out, you might say. The people that are going to listen to that are the users, the direct infringers, who should be notified.

The Court: Your position, then, as I understand it, is that the court would be justified in finding malice only if the charge were knowingly false.

Mr. Lyon: Yes, sir. That is one of my positions.

Now, I'd be glad to brief the point if your Honor desires briefing on the matter.

The Court: Well, as I recall, your office filed a brief on this Ohio situation at one time.

Mr. Lyon: Yes. Your Honor passed on it once. Your Honor ruled on it once. You ruled after the first reversal on the judgment, on the mandate, that there were neither damages to be awarded nor attorneys' fees. That was after the reversal.

The Court: The Court of Appeals evidently didn't think that I did.

Mr. Lyon: Well, I can explain that. I don't know whose fault it was, but there was no finding and no judgment to that effect, if I recall. [186]

The Court: I merely struck the provision out.

Mr. Lyon: I think maybe the Court of Appeals is teaching us another lesson. They want findings of fact even where there is no issue of fact, as in the summary judgment proceedings.

The Court: Even negative findings.

Mr. Lyon: Yes. So I have been confident that all they want out of this thing is a judgment and findings so they can properly review the thing in their minds.

You have ruled on it very squarely. But I will be glad to rebrief it.

The Court: Well, I hadn't heard all the evidence I have heard this time, at the time I ruled before.

Mr. Lyon: About all the evidence this time has shown is (1) that the thing was published by Mr. Adams of Kemart before Mr. Marx ever mentioned it; and (2) that when this litigation broke, Mr.

Adams asked each and every one of his customers to send in any threats from Printing Arts Research, and out of those hundreds of people not a one has been sent in.

That is about all this evidence adds up to, to me.

The Court: Is there anything you want to add to the brief you have heretofore filed?

Mr. Lyon: Well, if this matter of Watson v. Trask has caught your Honor's attention again and you doubt your [187] previous ruling, I should like to rebrief it. Because, at the time that briefs were filed, there were additional questions of cost and the like, and as a result the treatment of Watson v. Trask was not as full as it might be.

The Court: I would be glad to have it. I am rarely so sure of myself on any question of law that I won't reconsider it. And this is an interesting question here. I want to review these exhibits.

Do you wish to file anything new except a brief?

Mr. Hoppe: I was going to suggest this: We have outlined our position, and it hasn't changed since the time we argued in the Court of Appeals. And I would like to suggest that I send your Honor and counsel copies of the briefs that we had before. We will send the whole brief and a covering letter pointing out the portions which relate to the libel and slander, and to the exhibits before the court. And then Mr. Lyon could treat that as our brief and file a response to it. And I could file a reply to his brief.

The Court: How much time would you wish, Mr. Lyon?

Mr. Lyon: Whatever is convenient.

The Court: Well, you will have those briefs to us in five days, will you?

Mr. Hoppe: I will drop them in the mail when I get back tomorrow, your Honor.

The Court: Five days. [188]

And how much time would you wish?

Mr. Lyon: Will a typewritten brief be satisfactory, sir?

The Court: Oh, yes.

Mr. Lyon: Ten days.

The Court: Five, ten, and——

Mr. Hoppe: Ten days for reply.

The Court: Five, ten, and ten.

Very well. The matter will stand submitted, gentlemen.

Mr. Lyon: As I understand it, you will want argument on the good faith, too, your Honor. Is that matter to be reopened?

The Court: Well, that matter is here, and you may say anything you wish to say on the subject.

Mr. Lyon: It is to be reopened and reconsidered?

The Court: It is involved in this question of malice, as I envision it.

Mr. Lyon: I am thinking of the attorneys' fees now, your Honor.

The Court: Well, of course, that involves the question of good faith.

Mr. Lyon: That is what I mean.

The Court: The issue as to mental state is all the way through here.

It seems to me, as I view it now, that a finding that [189] any of these things were maliciously done would raise severe questions of good faith with respect to the action itself, though it can be said that there is nothing inconsistent in finding that these publications were maliciously made.

I will withdraw that. I don't see how you could find that the publications were maliciously made unless they were made without belief in the truth of them. And if you believe in the truth of them, namely, that this was an infringement, if you believe in the truth of them there is not bad faith in presenting the contentions to the court.

Mr. Hoppe: Your Honor, I wouldn't believe that is so, necessarily. A person can say something truthful maliciously with the intention of hurting somebody, if they know it's true.

The Court: I am thinking out loud on the subject.

Mr. Hoppe: I will use that extreme situation. Say that you say of a woman that she is a prostitute. You could believe that. But still the only reason you would say that in public would be to hurt her. So that statement would be malicious.

The Court: Well, you are expressing the thought I started out to express when I caught myself. I will stand by that. I think it's correct that a person could maliciously charge infringement falsely and still in good faith believe that the charge of infringement is true. [190]

Mr. Hoppe: Yes, sir, I believe so.

The Court: That is not a likely situation, but it's certainly a possible situation.

Mr. Lyon: Well, I think maybe we can clear that up by saying that suppose a patent owner, thinking his patent is being infringed by A, who is a processor and has a process patent, goes to the customer who buys the product and who couldn't possibly be infringing the patent because the patent is on a process. All the customer would do would buy the product of it. And he tells them all that A is infringing the patent and that legitimate businessmen should not do business with him.

There you have a case of malice. I mean, I think that is so. Because he couldn't be suing then. There is no point of giving that notice other than trying to maliciously destroy his business. But that is hardly the case here.

The Court: Oh, I am not suggesting—we are just thinking about possibilities here. What I was about to say, and abandoned, was correct, namely, that it is possible.

Mr. Lyon: Yes. That is why I cited my example.

The Court: So there is nothing inconsistent. I was about to say that and then abandoned it. There is nothing inconsistent in the finding of malice in a false charge of infringement and the finding of good faith or bad faith with respect to the prosecution of the claim. [191]

Mr. Lyon: I wouldn't want to go to the Court of Appeals with it, though. I would be afraid I would come back with a mandate to charge attorneys' fees. That is what I would be afraid of.

The Court: We are speaking about the truth as to the facts and not the question of law involved.

But the bad faith with respect to attorneys' fees deals with the conduct of the litigation, as I understand the rule.

Mr. Lyon: That is why I asked and wanted to know if you wanted to cover that. Your Honor knows better than we do how you viewed the evidence. You know how you viewed the law. As I see it, you were reversed on a square question of disagreement between yourself and the Court of Appeals as to a matter of law, and that is all.

I don't see how these dribs and drabs of discussion about pictures and whether you went to Clark or Dartmouth have anything to do with what this case turned on; not a thing.

The Court: Well, it might turn on whether the defendant acted in good faith in presenting the counterclaim. That's the problem on attorneys' fees, isn't it?

Mr. Lyon: Yes. Well, do you mean squarely whether he believed it was infringed or not?

The Court: What does the rule contemplate?

Mr. Lyon: I beg your pardon? [192]

The Court: What does the rule contemplate on attorneys' fees?

Mr. Lyon: That is what it contemplated. But so much time has been used up by Mr. Hoppe talking about one picture didn't look as good as another, and talking about whether or not your Honor could understand the file wrapper as well as Mr.

Marx did, and was thereby either duped or not duped. And I don't see where those elements involving the facts of this situation enter into it at all.

The Court: As I understand the question of good faith in the matter of attorneys' fees, it's a question of whether the litigant has been acting in good faith in making the defense or in prosecuting the claim.

Mr. Hoppe: I would say that that's right. It's whether the defense or prosecution of the case was extraordinary or whether it was perfectly normal, something of that type. The language of the statute, I believe, is "extraordinary."

Mr. Lyon: "Extraordinary."

Mr. Hoppe: I think the language of the——

Mr. Lyon: "Extraordinary case."

The Court: So the question of the defendant's mental state is all through this litigation on these issues.

Mr. Lyon: Well, my point is that you have decided what his mental state is once. Do you wish me to brief that [193] again, sir? Because I want to brief it if you have any doubt in your mind about changing.

The Court: Have you briefed it once?

I will read what's on file.

Mr. Lyon: Well, I will just duplicate it, if necessary, under the order you have given.

The Court: So it's five, ten, and ten, is that it, for the memorandums?

You don't need to argue the evidence at great

length. You can make your points, if you wish. I think I shall remember the evidence. And I will examine the documents. Most of it has been documentary.

Is there anything further, gentlemen?

Mr. Hoppe: Nothing, your Honor.

Mr. Lyon: No, your Honor.

The Court: Mr. Clerk?

The Clerk: That is all.

Mr. Hoppe: Thank you for the nice hearing, your Honor.

(Whereupon the matter was taken under submission.) [194]

[Endorsed]: Filed April 1, 1957.

---

PLAINTIFF'S EXHIBIT No. 16

(For Identification)

Paper No. 15

Appeal No. 2,876 MB

Hearing: May 29, 1945

In The United States Patent Office

Mailed June 28, 1945

Before The Board of Appeals

Ex parte Burtt L. Berry

Application for Patent filed July 2, 1941, Serial No. 400,826. Half Tone High-Light Process.

Mr. Henry Gifford Hardy for appellant.

This is an appeal from the decision of the examiner finally rejecting claims 1 to 18, inclusive.

Plaintiff's Exhibit No. 16—(Continued)

Claims 2 and 16 are representative and read as follows:

2. The method of producing half tone screen negatives with closed in dots in the high-light areas for drop-out high-light cuts and prints, which comprises treating the high-light areas only of the photoengravers copy with a fluorescent material adapted to emit an actinic light on said areas, making the exposure by ordinary light through a photoengravers half-tone screen, irradiating the copy, and using the visible light emitted from the fluorescent material on the high-lights for closing in the high-light dots on the screen negative by prolonged exposure of said areas.

16. Copy for the drop-out high-light half tone process characterized in having its high-light areas only coated with a fluorescent material adapted to fluoresce with an actinic light.

The references relied upon are:

| | | |
|---|---|---|
| Ranck | 1,108,849 | Aug. 25, 1914 |
| Masa (Br.) | 308,375 | June 23, 1930 |
| Murray | 2,008,290 | July 16, 1935 |
| Murray | 2,108,503 | Feb. 15, 1938 |
| Marx, Jr. | 2,191,939 | Feb. 27, 1940 |
| Marx, Jr. | 2,304,838 | Dec. 15, 1942 |

The appealed claims relate to a method of producing half tone screen negatives with closed in dots in the highlight cuts and prints. It is well known that in half tone prints the white portions of the copy never print exactly white since they con-

Plaintiff's Exhibit No. 16—(Continued)

tain minute dots and the black portions are never entirely black by reason of the presence of small white dots. The present application is concerned with a method for eliminating the small dots in the high-light areas. This is accomplished by treating the high-light areas with a fluorescent material which apparently is done by the artist at the time of making the copy or after the copy has been made. The copy is then exposed in the usual manner to ordinary white light. After the first exposure the copy is additionally exposed to invisible activating rays such as cathode or X-rays. These rays have no effect upon the non-treated portion of the copy but will tend to cause overexposure in the highlight areas, thus closing in the dots which ordinarily appear on the negative.

Appellant has a copending application, Serial No. 400,827 also before us on appeal, the subject matter quite similar to that involved here. Since appellant is relying largely upon the brief filed in said copending case, we shall rely upon our discussion of the prior art in said other decision.

The main references relied upon in this case are the patents to Marx. Marx treats the half portions or the work parts of his copy with water colors or pencils containing substances which will act as absorbents for ultra violet rays. When such copy is exposed to ordinary light the ultra violet portions of said light will be absorbed by the work part of the copy, but the highlight sections or areas not hav-

Plaintiff's Exhibit No. 16—(Continued)

ing any of the absorbent material applied thereto will be reflected upon the sensative film in the usual way. After this first exposure the half tone screen is removed and the copy is exposed to ultra violet light which is invisible. As stated in lines 53-56, page 2, column 1, a filter is interposed between the light series and the negative elements so as to pass only ultra violet light to the film. Since the ultra violet rays falling on the work part or half tone areas of the copy are absorbed, none will be reflected upon the film but the highlight portions not having any coating of absorbent material will reflect the ultra violet rays and cause the highlight areas to be overexposed, thus eliminating or closing the dots in such portions on the film.

In this case the coating material used in the highlight areas, which when irradiated or activated, glows or fluoreses with light which is of different wave length from ordinary light. Marx on the other hand coats the half tone areas with material which absorbs the ultra violet rays. When this is exposed to white light the usual half tone negative is produced. The second exposure is also with white light but the rays here made passes through a filter which permits only ultra violet rays to pass. Since the rays falling on the half tone areas have been absorbed by the special coating only the highlight portions will be affected by the second exposure.

The examiner does not contend that the appealed claims are met directly by the Marx patents but

Plaintiff's Exhibit No. 16—(Continued)

contends that no invention would be involved in substituting fluorescent material for the coating material disclosed in Marx since this type of material is used in the Masa and Murray patents in reproducing of wood graining and correcting color intensity deficiency in color photography. However, there is no teaching in the prior art that would tend to lead one to make such substitution.

Claims 1 to 15, which are directed to the method of making half tone screen negatives of the type discussed above, are deemed to be patentable over the art cited.

Claims 16, 17 and 18 are directed to a copy especially treated in the making of appellant's half tone negatives. All that these claims call for is a copy having certain portions thereof treated with a fluorescent material. It is obvious that such a product has no utility except in connection with appellant's process. The patents to Marx show that it is old to make up such copy in which part of the design or picture has been given a special coating which is necessary in making his half tone negatives. While it is true that the coating used by Marx is different from that contemplated here, still we are unable to see wherein these claims involve anything of patentable moment.

The decision of the examiner is affirmed as to claims 16, 17 and 18 and is reversed as to the remaining claims.

June 28, 1945.

Plaintiff's Exhibit No. 16—(Continued)

BOARD OF APPEALS,
Henry Van Arsdale,
Assistant Commissioner,
C. H. Shaffer,
Examiner-in-Chief,
V. I Richard,
Examiner-in-Chief.

---

PLAINTIFF'S EXHIBIT No. 16-A
(For Identification)

Paper No. 17
Appeal No. 2,876 MB

In the United States Patent Office
Before the Board of Appeals

Mailed September 18, 1945

Ex parte Burtt L. Berry.

Application for Patent filed July 2, 1941, Serial No. 400,826. Half Tone High-Light Process.

Mr. Henry Gifford Hardy for appellant.

ON REQUEST FOR RECONSIDERATION

This is a petition for reconsideration of our decision dated June 28, 1945, with respect to claims 16, 17 and 18.

These claims are for a specially prepared copy for use in half tone printing. The main characteristic of such copy is that the high light portions only are coated with a flourescent material adapted to flouresce with an actinic light.

Plaintiff's Exhibit No. 16-A—(Continued)

The Marx patents show a different coating procedure for accomplishing much the same result.

Upon more mature consideration we are of the opinion these three claims should also be allowed especially in view of what we have already conceded to be allowable.

The decision of the examiner is reversed as to claims 16, 17 and 18.

The petition is granted.

September 18, 1945.

BOARD OF APPEALS,
Henry Van Arsdale,
Assistant Commissioner,

C. H. Shaffer,
Examiner-in-Chief,

V. I. Richard,
Examiner-in-Chief.

---

PLAINTIFF'S EXHIBIT No. 16-B

(For Identification)

Paper No. 15
MB

Appeal No. 2,945
Hearing May 29, 1945.

In the United States Patent Office
Before the Board of Appeals

Mailed June 28, 1945.

Ex parte Burtt L. Berry.

Plaintiff's Exhibit No. 16-B—(Continued)

Application for Patent filed July 2, 1941, Serial No. 400,827. Half Tone Drop-Out Process.

Mr. Henry Gifford Hardy for appellant.

This is an appeal from the decision of the examiner finally rejecting claims 1 to 14, inclusive.

Claims 1 and 10 are illustrative and reads as follows:

1. The method of producing half tone screen negatives with closed or substantially closed in dotless high-light areas from copy which comprises providing copy formed over a substratum of fluorescent material adapted to emit an actinic light, and with said substratum left uncovered in the high-lights, photographing the copy through a half tone screen onto a plate in the regular manner and using the light emitted by the bare fluorescent areas to close in the high-light dot structure.

10. Copy for drop-out high-light half tone process characterized in having its high-light areas covered with a fluorescent material.

The references relied upon are:

| | | |
|---|---|---|
| Ranck | 1,108,849 | Aug. 25, 1914 |
| Masa (Br.) | 308,375 | June 23, 1930 |
| Murray | 2,008,290 | July 16, 1935 |
| Murray | 2,108,503 | Feb. 15, 1938 |
| Marx, Jr. | 2,191,939 | Feb. 27, 1940 |
| Crosby | 2,276,718 | Mar. 17, 1942 |
| Marx, Jr. | 2,304,838 | Dec. 15, 1942 |

The appealed claims are directed to a method of making photographic negatives for half tone print-

Plaintiff's Exhibit No. 16-B—(Continued)

ing plates and also to a special type of drawing paper to be used in said process.

It is well known that in making such negatives a half tone screen is interposed between the object and the negative. This screen is usually of glass and has a large number of small lines extending in one direction and another series of lines extending in another direction usually at right angles to the first set. When an object is photographed through such a screen these lines produce dots on the finished negative. In the region of high lights the dots are very small but in the black portions they are very large. As a result of these the portions which should be entirely white in the finished picture are gray as a result of the small black dots and the black portions are not entirely black due to the presence of the small white dots.

Numerous attempts have been made to make what are here called highlight drop-out negatives and this has been accomplished in four general ways fully stated on pages 8 and 9 of the brief. This application is concerned with photographically burning out the highlight areas. This is accomplished by applying a layer of a suitable fluorescent material over the whole surface of the artist's drawing paper. This layer does not change the appearance of the paper. The coloring material in the form of a water paint or pencil tends to mask this layer of fluorescent material, and render it inactive in the black and gray portions. The picture is then exposed to white light to photograph the same through the half tone screen. The light is then shut

Plaintiff's Exhibit No. 16-B—(Continued)

off, the object is irradiated with ultra violet light or X-ray which excites the fluorescent material, which is not covered by the drawing or paint and this tends to burn out by overexposure the highlight portions of the negative so that such portions of the negative will be entirely black. During this second or "closing-in-exposure" the half tone screen may be moved farther from the plate or be moved entirely from in front of the plate.

Appellant contends that only four of the references cited by the examiner relate to the subject of "highlight drop-out". These references are the patents to Ranck, Crosby and the two patents to Marx.

The patent to Ranck discloses a process in which the whole sheet is given an even coating of yellow colored material. The highlight portions of the picture are then coated with an opaque substance such as Chinese white. This is then photographed through the usual half tone screen by the use of white light only and this is applied but once. There is no disclosure of the use of fluorescent material. This process has its disadvantage in that a skillful artist must be employed to apply the opaque material, however, it does effect a burning out of the dots in the highlight portions.

In the Crosby patent the artist impregnates the drawing paper with a colorless solution of para-nitro-phenol. The picture is then drawn and the regions of intermediate tones such as grays have then applied thereto an alkali solution which reacts to produce a yellow stain. The highlight por-

Plaintiff's Exhibit No. 16-B—(Continued)

tions are untreated. Obviously this process requires considerable skill in applying the alkali solution to the desired parts of the picture.

The Marx patents relate to a process of eliminating all dots in the highlight regions by treating the drawing paper with a fluorographic solvent which is colorless but which will absorb ultra violet light. A second exposure is made in which an ultra violet transmission filter is interposed between the light source and the negative element so that in the second exposure only ultra violet light reaches the negative.

While it is true that these four patents disclose processes in which the dots in the highlights are removed, still it is apparent that this is done in a way that is different from that here claimed. The claims directed to the process are quite specific and are deemed to be allowable. Claims 9 to 14, which are directed to the drawing paper or artist's board, which has been given a coating of photophosphorescent material, are deemed to be unpatentable over the art cited, especially the patents to Marx.

The decision of the examiner is reversed as to claims 1 to 8, and is affirmed as to claims 9 to 14.

June 28, 1945.

BOARD OF APPEALS,
Henry Van Arsdale,
Assistant Commissioner,
C. H. Shaffer,
Examiner-in-Chief,
V. I. Richards,
Examiner-in-Chief.

PLAINTIFF'S EXHIBIT No. 16-C

(For Identification)

Appeal No. 2,945 Paper No. 17

MB

In the United States Patent Office
Before the Board of Appeals

Ex parte Burtt L. Berry. Mailed Sept. 12, 1945

Application for Patent filed July 2, 1941, Serial No. 400,827. Half Tone Drop-Out Process.

Mr. Henry Gifford Hardy for appellant.

This is a petition for reconsideration of our decision of June 28, 1945, with respect to claims 9 to 14, inclusive.

Claims 9 to 12 are directed to a "copy" used in half-tone reproduction in which the high light portions are covered with fluorescent material. Upon reconsideration it is believed that these claims should be allowed and our former decision is modified accordingly.

Claims 13 and 14 are still deemed to be too broad to be allowed. All that these claims call for is a sheet of drawing paper or the like having a coating of fluorescent material. To merely add a coating of any desired material to a sheet of cardboard clearly does not involve invention.

The rejection of claims 13 and 14 remains undisturbed but claims 9 to 12 may be allowed.

This petition is granted to the extent indicated.

September 12, 1945.

Plaintiff's Exhibit No. 16-C—(Continued)

BOARD OF APPEALS,
Henry Van Arsdale,
Assistant Commissioner,
C. H. Shaffer,
Examiner-in-Chief,
V. I. Richard,
Examiner-in-Chief.

---

PLAINTIFF'S EXHIBIT No. 34

[Excerpt from The Photoengravers Bulletin for May, 1949.]

Kemart Licensees Liable to Lawsuit

As of March 28, 1949, The District Court of The United States in Los Angeles issued its decision denying the Kemart Corporation of San Francisco the temporary injunction whereby it sought to restrain Printing Arts Research Laboratories, Inc. from bringing patent infringement suit pendente lite against users of the Kemart Process for producing highlight halftones. See case No. 8909-WM in The District Court of The United States, Southern District of California, Central Division, Kemart Corporation vs. Printing Arts Research Laboratories, Inc.

For the Protection . . . of licensees of the Fluorographic Process, and in its own interests, Printing Arts Research Laboratories, Inc. publicly announces its intention to file such a suit as soon as possible. Printing Arts Research Laboratories, Inc., Santa Barbara, California.

Plaintiff's Exhibit No. 34—(Continued)

News Release in Explanation of Our Full Page Ad for May Issue of The Photoengravers Bulletin. By Printing Arts Research Laboratories, Inc. of Santa Barbara, Calif.

It appears that any maker of halftone negatives from wash drawings by the Kemart Process is liable to suit for direct infringement of the Marx Patent No. 2,191,939 owned by Printing Arts Research Laboratories, Inc., one of the basic patents in its Fluorographic Process.

In suit No. 8909-WM pending in the United States District Court at Los Angeles, the Kemart Corporation of San Francisco is charged with contributory infringement of such patent by furnishing to its licensees such equipment and supplies as a special purple lamp and a special illustration board and a so-called "neutralizer" with the intent and purpose that they be used in direct infringement of such patent.

As was reported some time ago, the Kemart Corporation sought an injunction to restrain Printing Arts Research Laboratories, Inc. from notifying or suing Kemart licensees with respect to their operations being direct infringements of the Marx patent. Such injunction was denied on March 28, 1949.

The process of the Marx patent is the one wherein screen pattern is eliminated from the highlight areas of a highlight halftone negative, by means of ultra-violet light, in a supplemental exposure or exposures of the negative to a drawing

Plaintiff's Exhibit No. 34—(Continued)

having an absorbent of ultra-violet light mixed with its pigment.

In this connection W. J. Pensinger, Vice-President of Printing Arts Research Laboratories, Inc. said "Unlike our competitor which has stimulated our patented process, we prefer to try our legal questions in the courts rather than in literary broadsides to photoengravers and lithographers. However, when it is legally advisable, we shall put any Kemart licensee on notice with respect to its or his infringement of our patent. A suit for direct infringement will be instituted against a Kemart licensee very promptly. Our action for contributory infringement against the Kemart Corporation will continue to be vigorously prosecuted."

---

PLAINTIFF'S EXHIBIT No. 60

November 23, 1948

Memorandum to Kemart Licensees

Gentlemen:

Today Kemart Corporation filed a suit in the Federal District Court in Los Angeles, asking for a declaratory judgment against Printing Arts Research Laboratories, Inc. of Santa Barbara, the owners of the patents of Walter S. Marx, Jr. covering the Fluorographic Process. We filed this action for the purpose of protecting you and ourselves against a series of threats by the representatives and employees of Printing Arts Research Laboratories, Inc., which firm has expressed its opin-

Plaintiff's Exhibit No. 60—(Continued)

ion that the use of the Kemart Process in some way infringes the Marx patents.

Before Kemart was made available to the photoengraving industry, in July of 1947, this patent question was very thoroughly and carefully considered by patent counsel for Kemart Corporation. Issuance of the Kemart patents came only after Kemart had won appeals in the United States Patent Office, in which the Kemart Process was held to be patentably different from the Marx patents. Thus, we hold the well-founded opinion, based upon the decisions of the United States Patent Office, that the owners of the Fluorographic Process are mistaken in their threats and declarations, and we seek to have the Federal District Court order the Fluorographic representatives to stop these threats and declarations.

Not only are the threats and statements made by the defendants false in fact, in our opinion, but we regard them as contrary to the proper spirit of competition which should exist between two organizations endeavoring to render service and supplies to the photoengraving industry. In our sales efforts, and in those of our sales representatives, The Harold M. Pitman Company, The California Ink Co., Inc., the G. C. Dom Supply Company, and Latimer, Limited of Canada, we point out the real merits of the Kemart Process and we sincerely believe that it is superior to all other methods with similar objectives, old and new, including the Fluorographic Process.

Plaintiff's Exhibit No. 60—(Continued)

In our suit, we are asking the Court to grant a preliminary restraining order and permanent injunction against Printing Arts Research Laboratories, Inc., from threatening suits against you or our future licensees, or from in any way asserting that the practice of the Kemart Process infringes the Marx patents. We are also asking damages for these wrongful acts.

We have proceeded in this manner to protect you from all liability by reason of your use of the processes licensed under the Kemart patents. May we ask that whatever comes to your attention, directly or indirectly, that may in any way affect this matter, or any communications or notices you may receive from Printing Arts Research Laboratories, Inc., be forwarded to us promptly.

It is our expectation that the judicial determination of these issues will be brought to trial within the next four months. Meanwhile, you can continue your use of the Kemart Process, and feel secure that all proper steps are being taken.

Cordially yours,

KEMART CORPORATION,

By Frank P. Adams,
President.

PLAINTIFF'S EXHIBIT No. 61

[Harold M. Pitman Co. Letterhead]

December 13, 1948

Kemart Corporation
701 Sansome Street
San Francisco 11, California
Attention: Mr. Frank Adams

Dear Frank:

Thank you very kindly for your letter of December 10th and for the constructive criticism made with regard to our handling of your Process in our Cleveland office. I shall immediately take this up with Mr. Leroy Smith, advising him of the proper amount and quantity of your products which he should carry in stock at all times.

I am sure that you will soon see that such a condition will not repeat itself. You will appreciate, however, that Leroy just moved into his new building and it is somewhat difficult to organize everything and get it running smoothly. This is particularly difficult when new products are constantly being added to our line.

I sense that there is a lot of thinking taking place in your office regarding the proper way to sell Kemart installations and an express of opinion from Harvey and myself will be forthcoming to you within a very short time.

Incidentally, I have heard that the Fluorographic Company has secured an injunction against your firm and although I do not believe the report is true, none-the-less, the rumors are apparently flying.

Plaintiff's Exhibit No. 61—(Continued)

While I know that Harvey would greatly enjoy coming out to San Francisco, I am afraid such a trip will have to be delayed until next summer during the Photo Engravers Convention.

We are enjoying a very healthy business condition right now, although apparently it is not true through the entire line of industry. We, of course, always enjoy increased activity, as general business tends to slip off due to the increase of advertising made by firms in an effort to stimulate sales activity.

With all best wishes and warmest personal regards, I am

Yours sincerely,

/s/ Paul,

Vice President.

---

PLAINTIFF'S EXHIBIT No. 62

Kemart Corp. May 18, 1949
701 Sansome Street
San Francisco, California

Gentlemen:

A full page advertisement of the "Printing Arts Research Laboratories, Inc." of Santa Barbara, California appeared in the Photo Engravers Bulletin in the May Issue, notifying licensees of the Kemart Corporation that by using your process we will be liable to a lawsuit for infringement of their patent.

Plaintiff's Exhibit No. 62—(Continued)

We, therefore, cancel our license agreement with you herewith and will ignore all monthly bills rendered by you to us. We paid for the lights and will therefore retain them in our possession.

Yours very truly,

COLUMBIAN LITHOGRAPHING COMPANY,
/s/ Oscar Kohn,
Oscar Kohn,
OK:lk President.

---

PLAINTIFF'S EXHIBIT No. 63
May 23, 1949

Memorandum to Kemart Licensees

Gentlemen:

Kemart Corporation wishes to remind its licensees of the following provisions of your license:

"Kemart agrees to protect Photoengraver (or Lithographer) from all liability by reason of the use hereunder of the licensed patents, provided that in the event of any charge of infringement Photoengraver (or Lithographer) notifies Kemart immediately and aids in the defense by giving factual testimony."

We reaffirm this obligation.

It is important, in order to enable us to properly protect your interests, that you send to us immediately any papers which may be served on you. We stand ready to protect you in accordance with

Plaintiff's Exhibit No. 63—(Continued)

the license, and will furnish a bond protecting any licensee from financial loss in the event of suit.

Cordially yours,

KEMART CORPORATION,

/s/ By Frank P. Adams,

Frank P. Adams,

President.

---

PLAINTIFF'S EXHIBIT No. 64

[G. C. Dom Supply Co. Letterhead]

Mr. Frank P. Adams May 25, 1949

Kemart Corporation,

334 Kearny Street,

San Francisco 8, Calif.

Dear Frank:

Glad to receive your telegram and have relaxed, though did not truly believe Fluoro had anything. It would seem that Kemart, backed up by the U. S. Patent Office, is in an unassailable position.

Only one of our customers was sufficiently stimulated by the Fluro blob to call us. He was immediately reassured last week and is further convinced that Kemart is a necessary process to his happiness and well being. In fact, he is seriously considering putting in another set of lamps at the $25.00 per month rate. No comments from the other three licensees.

Incidentally, we are about to return all outstanding Kemart Lamps other than those already installed in the four licensed shops. We very dearly

Plaintiff's Exhibit No. 64—(Continued)

cherish the thought that the new stronger lamps will soon be on the way to us to replace the present four sets of lamps installed. How about it?

One comment from Dayton Process—how about a special stronger Highlight White for them? Please rush if available.

We are about to do some more work on Louisville Courier Journal tomorrow, using an informal beer party as the means. Again they will probably insist on a representative visit from Kemart.

That's about it for now.

As ever,

/s/ Whit Lamson, Per E. T.
Whit Lamson.

BWL/ET

P.S.—24 copies of "Platemakers Bulletin."

---

PLAINTIFF'S EXHIBIT No. 65

Kemart Corporation May 27, 1949
701 Samsome Street
San Francisco 11, California

Attention: Mr. Frank P. Adams, President

Gentlemen:

The official monthly organ of the American Photo Engravers Bulletin has just come to my desk and on opening I was surprised to note on the inside Back Cover that the users of The Kemart Process were to be sued by Printing Arts Research Laboratories, Inc., Santa Barbara, California.

Plaintiff's Exhibit No. 65—(Continued)

This I cannot understand as we contracted for this in good faith and am now reluctant to use the Kemart Process until some understanding is reached.

We have a sizeable investment in this and hope for a speedy settlement of this dispute which has now strangled part of our business and production.

Yours very truly,

/s/ Alex Dempster,
Alex. Dempster,
President, The Eclipse Electrotype & Engraving Company, Inc.
AD:ek

---

PLAINTIFF'S EXHIBIT No. 66

Kemart Corporation
334 Kearny Street
San Francisco 8, Calif.

May 27, 1949

Gentlemen:

As agents for the Kemart Corporation, we feel it our duty to notify you of certain attitudes held by your licensees, and ourselves.

The three Kemart licensees in Cincinnati and one in Dayton are very worried about recent articles in the May issue of The Photoengravers Bulletin, wherein appeared an advertisement and article presented by Printing Arts Research Laboratories and threatening patent infringement suits pendente lite.

Plaintiff's Exhibit No. 64—(Continued)

cherish the thought that the new stronger lamps will soon be on the way to us to replace the present four sets of lamps installed. How about it?

One comment from Dayton Process—how about a special stronger Highlight White for them? Please rush if available.

We are about to do some more work on Louisville Courier Journal tomorrow, using an informal beer party as the means. Again they will probably insist on a representative visit from Kemart.

That's about it for now.

As ever,

/s/ Whit Lamson, Per E. T.
Whit Lamson.

BWL/ET

P.S.—24 copies of "Platemakers Bulletin."

---

PLAINTIFF'S EXHIBIT No. 65

Kemart Corporation May 27, 1949
701 Samsome Street
San Francisco 11, California

Attention: Mr. Frank P. Adams, President

Gentlemen:

The official monthly organ of the American Photo Engravers Bulletin has just come to my desk and on opening I was surprised to note on the inside Back Cover that the users of The Kemart Process were to be sued by Printing Arts Research Laboratories, Inc., Santa Barbara, California.

Plaintiff's Exhibit No. 65—(Continued)

This I cannot understand as we contracted for this in good faith and am now reluctant to use the Kemart Process until some understanding is reached.

We have a sizeable investment in this and hope for a speedy settlement of this dispute which has now strangled part of our business and production.

Yours very truly,

/s/ Alex Dempster,
Alex. Dempster,
President, The Eclipse Electrotype & Engraving Company, Inc.
AD:ek

---

PLAINTIFF'S EXHIBIT No. 66

Kemart Corporation
334 Kearny Street
San Francisco 8, Calif.

May 27, 1949

Gentlemen:

As agents for the Kemart Corporation, we feel it our duty to notify you of certain attitudes held by your licensees, and ourselves.

The three Kemart licensees in Cincinnati and one in Dayton are very worried about recent articles in the May issue of The Photoengravers Bulletin, wherein appeared an advertisement and article presented by Printing Arts Research Laboratories and threatening patent infringement suits pendente lite.

Plaintiff's Exhibit No. 66—(Continued)

Your licensees, threatened by possible patent infringement suits, are extremely distressed and fear possible damage to their reputations not only by such threatened suits but by the mere fact that these suits have been threatened.

The effect has been to create confusion, virtually prevent further Kemart promotion by Kemart Licensees to their customers, and completely curtail our Kemart agent sales to prospective Kemart Licensees. The resultant limit to expansion has done definite financial damage. Further, the fear has been expressed by Kemart Licensees that they will be cut off from supplies and will be unable to handle work already in their shops but not yet started.

We urge you to take whatever steps you can to reassure your licensees that they will be protected under the existing patent laws and that the financial damage already done will be righted.

Hoping to hear from you shortly, we are,

Yours sincerely,

G. C. DOM SUPPLY COMPANY,
/s/ Benjamin W. Lamson, Jr.,
Benjamin W. Lamson, Jr.,
Vice President.

BWL/ET

PLAINTIFF'S EXHIBIT No. 67

Kemart Corporation June 6, 1949
334 Kearny Street
San Francisco, California

Gentlemen:

Since the publication of an advertisement in the May issue of The Photoengravers' Bulletin in which Printing Arts Research Laboratories threatened to sue licensees of the Kemart process, we feel a deep distrust and fear of using the Kemart process.

Up until the time we receive from you assurance that we will receive complete protection in the event patent infringement suit should be brought, we will discontinue the use of the Kemart process. Should a suit as heretofore mentioned be successfully pursued against us, it would do us irreparable damage financially and would certainly harm our reputation in the graphic arts industry resulting in a great loss of business to us.

Sincerely,

ADVERTISERS ENGRAVING COMPANY
also
THE KENAND PHOTO ENGRAVING CO.

/s/ Leonard Dahlman,
Leonard Dahlman,
General Manager.

PLAINTIFF'S EXHIBIT No. 68

Kemart Corporation June 7, 1949
334 Kearny Street
San Francisco 8, California

Attention: Mr. Frank P. Adams

Dear Mr. Adams:

Will you please return to us our copy of the contract which we signed with your corporation? The question of possible litigation against licensees we want to turn over to our attorney for investigation. We would appreciate having the contract by return mail.

The Kemart system is working very nicely, and I hope we will be able to retain it.

Sincerely,

PACIFIC PRESS INC.,
/s/ King Richardson,
King Richardson,
Manager Photo-Engraving Division.

KR:es

---

PLAINTIFF'S EXHIBIT No. 69

Mr. Burtt L. Berry June 29, 1949
c/o Kemart Corporations
701 Sansome Street
San Francisco 11, Calif.

Dear Mr. Berry:

We are still very much interested in the use of the Kemart process but, the reason we have not answered Mr. Adams' letter of June 10th is be-

Plaintiff's Exhibit No. 69—(Continued)

cause we are still waiting to hear the results of the infringement patent injunction, issued by the courts, against the Kemart association.

According to the article in the Photoengravers Bulletin a few weeks ago, anyone who used Kemart might be liable for a lawsuit. Possibly you could forward me some information along this line.

Your attention will be appreciated.

Very truly yours,

NASSAU PHOTO-ENGRAVING
CO., INC.,
/s/ Joseph M. Hughes,
Joseph M. Hughes,
Vice-President.

JMH:mm

---

PLAINTIFF'S EXHIBIT No. 70

Mr. F. P. Adams June 29, 1949
Kemart Corporation
334 Kearney St.
San Francisco, Calif.

Dear Mr. Adams:

As per our conversation when you were in Fort Worth recently, inasmuch as we have been unable to get the maximum results from the Kemart process, we are hereby cancelling the agreement which we made with your representative, Mr. Olson, and we are returning to you all of the supplies which are unused for credit, and would also appreciate your advising whether the fluorescent paper is to be returned to you or to the Strathmore Company.

Plaintiff's Exhibit No. 70—(Continued)

If and when at some later date that your process is worked out more advantageously we would certainly be considerate of it, and when all litigation has been straightened out, we will be in a more receptive mood. If you are interested in buying the brackets which we had made for your lamps to fit a 24″ Robertson darkroom camera, we will be glad to sell them at a nominal sum inasmuch as they are no use to us.

Sincerely yours,

SOUTHWESTERN ENGRAVING CO., INC.,
/s/ J. W. Murphree,
J. W. Murphree,
President.

JWM:dm

---

PLAINTIFF'S EXHIBIT No. 71

Henry A. Hardy, Esq. July 2, 1949
2610 Russ Building
San Francisco, Calif.

Dear Mr. Hardy:

Our client, Strathmore Paper Company, West Springfield, Massachusetts, supplies special paper for the Kemart Corporation.

We understand that Printing Arts Research Laboratories, Inc. is suing or is about to sue.

We wonder if you could give us an appraisal of the position of Printing Arts. By this time you doubtlessly have formed an opinion as to their

Plaintiff's Exhibit No. 71—(Continued)

rights. Strathmore is concerned with what may result, and would like to know of your thoughts on the matter, as would we.

Very truly yours,

ROSS & ROSS,

By Walter C. Ross.

KR:lm

---

PLAINTIFF'S EXHIBIT No. 72

Mr. Frank P. Adams July 18, 1949
Kemart Corporation
334 Kearney Street
San Francisco 8, California

Dear Mr. Adams:

As we are about to start on press with our Ninth Production Yearbook, we have received word about the patent dispute in which Kemart is involved. We are sorry to hear of the aggravation that this no doubt has caused you, and hope it will be straightened out quickly and satisfactorily for all concerned.

It puts us in a not too comfortable position legally. We have taken the matter up with our legal consultants and have been strongly advised to omit the editorial material on Kemart until the situation is clarified. Because of the strong stand our lawyers have taken and the fact that we cannot at this time delay a decision, we are following their advice and will accordingly hold the material on Kemart for possible inclusion in the next edition.

Plaintiff's Exhibit No. 72—(Continued)

This is a decision that we deeply regret. We regret it for many reasons—your kind cooperation, the interest our readers would have in the article, our personal enthusiasm for this sort of product, and the fact that, frankly, it's an awful nuisance and expense to make such a change at this late date. But we just have to play it safe. We probably would not be involved in the suit, probably would be in a safe position anyway, but could be annoyed to quite an extent as far as legal and court costs, etc., are concerned.

Of course you will be disappointed to hear that we have made this decision. It is unpleasant but essential that we follow our lawyers' advice. We shall appreciate your keeping us informed so that we can activate this material for the next book as soon as possible.

Cordially yours,

/s/ Edward M. Gottschall,
Production Yearbook.

EMGottschall/ab

---

PLAINTIFF'S EXHIBIT No. 73

[Letterhead of The Krus Company]

Mr. Frank Adams, President July 18, 1949
Kemart Corporation
701 Sansome Street
San Francisco 11, Calif.

Dear Mr. Adams:

The terribly long delay in answering your letter

Plaintiff's Exhibit No. 73—(Continued)

of June 28th is only excusable by the fact that I have been at home ill with a bad leg and these matters have been left for my attention upon my return to the office. As you may suspect, a great many things were waiting for me upon my return.

Through the cooperation of The Harold M. Pitman Co. and their Mr. Scotty Heyes, we were able to overcome some of our problems in trying to make Kemart a practical working tool in our Engraving Dept. We still are unable to get the speed we feel should be part of a practical commercial proposition; but, at any rate, we have overcome some of the unseemly slowness we first encountered.

We have made no commercial use of the process and have not publicized it with our accounts whom we feel would be most likely to be users. This is for several reasons. One, we are not licensed to use the process with you at this time. Two, we were much disturbed over the litigation which appeared to be imminent between the Kemart Corp. and the Printing Arts Research Corp., who are the patentees of the Fluorographic Process.

We have not been advised as to the outcome of this litigation. All we know is that publicly printed material appeared which threatened suit against anyone using the Kemart process in their plant. Naturally, we had no desire to become involved in a three cornered dog fight. We have not been advised that this situation has changed at this writing.

I would be pleased to hear from you in regard

Plaintiff's Exhibit No. 73—(Continued)

to this matter at your earliest convenience so that we can come to a final decision in this matter.

Very truly yours,

/s/ Victor Schwarze,
Victor Schwarze,
Vice President.

VS:dg

---

PLAINTIFF'S EXHIBIT No. 74

[Excerpt from The Photoengravers Bulletin for June 1950.]

News item!

New Date Set for Trial of Patent Suit Between Fluorographic and Kemart.

Los Angeles, June 1.—October 17, 1950 is the newly set trial date for the suit in the United States District Court at Los Angeles in which the Kemart process of making highlight halftone negatives is charged to infringe the Fluorographic patent (U.S. 2,191,939) owned by Printing Arts Research Laboratories, Inc. Today, Mr. William J. Pensinger, Vice-President of Printing Arts Research Laboratories, said: "Our suit in the United States District Court in Chicago against the Wallace-Miller (Engraving) Company, as a representative user of the Kemart process, has not yet been set for trial, but we have every reason to believe that it will be tried well before the end of this year." Fluorographic Sales Division, Printing Arts Research Laboratories, Inc., Santa Barbara, California.

PLAINTIFF'S EXHIBIT No. 75

Mr. Frank P. Adams, President
Kemart Corporation
334 Kearny St.,
San Francisco 8, California

Dear Mr. Adams:

The last word I have had from our attorneys is that we had better wait until your suit is settled before doing anything with the Kemart equipment. Much as we might want to use it, we have left it in the boxes in which it was shipped.

Would you like to have us return the equipment and supplies to you or shall we keep it in the boxes until the suit is settled? I will leave the decision to you. Even the possibility of an escrow agreement was ruled out by Mr. Hamlyn and Mr. Kilgore.

We had another inquiry the other day from a customer who was interested in using Kemart but we had to tell him that as yet, we cannot use it. No doubt, such inquiries will gladden your heart.

Please advise as to the disposition of the equipment.

Yours very truly,

/s/ Ralph A. Van Camp,
Ralph A. Van Camp,
Manager, Bee Engraving.

September 8, 1950
RAV:vlv

## DEFENDANT'S EXHIBIT NN

[Excerpt from The Photoengravers Bulletin for December 1948]

Kemart Corporation, San Francisco. Word has been received that on November 23, 1948, Kemart Corporation filed a suit in the Federal District Court in Los Angeles, asking for a declaratory judgment against Printing Arts Research Laboratories, Inc., of Santa Barbara.

The suit asked that the court grant a preliminary restraining order and permanent injunction against the defendant firm, which licenses the Fluorographic Process, from threatening suits for patent infringement against Kemart Corporation's licensees or potential licensees, and from in any way asserting that the Kemart Process is an infringement of the Marx patents; Kemart also asks damages for defendant's alleged wrongful acts and doings.

Kemart Corporation has sent to its licensees a letter commenting on this suit, which we quote as follows:

"Today Kemart Corporation filed a suit in the Federal District Court in Los Angeles, asking for a declaratory judgment against Printing Arts Research Laboratories, Inc., of Santa Barbara, the owners of the patents of Walter S. Marx, Jr. covering the Fluorographic Process. We filed this action for the purpose of protecting you and ourselves against a series of threats by the representatives and employees of Printing Arts Research

Defendant's Exhibit NN—(Continued)

Laboratories, Inc., which firm has expressed its opinion that the use of the Kemart Process in some way infringes the Marx patents.

"Before Kemart was made available to the photo-engraving industry, in July of 1947, this patent question was very thoroughly and carefully considered by patent counsel for Kemart Corporation. Issuance of the Kemart patents came only after Kemart had won appeals in the United States Patent Office, in which the Kemart Process was held to be patentably different from the Marx patents. Thus, we hold the well-founded opinion, based upon the decisions of the United States Patent Office, that the owners of the Fluorographic Process are mistaken in their threats and declarations, and we seek to have the Federal District Court order the Fluorographic representatives to stop these threats and declarations.

"In our suit, we are asking the Court to grant a preliminary restraining order and permanent injunction against Printing Arts Research Laboratories, Inc. from threatening suits against you or our future licensees, or from in any way asserting that the practice of the Kemart Process infringes the Marx patents. We are also asking damages for these wrongful acts.

"Not only are the threats and statements made by the defendants false in fact, in our opinion, but we regard them as contrary to the proper spirit of competition which should exist between two organizations endeavoring to render service and sup-

Defendant's Exhibit NN—(Continued)

plies to the photoengraving industry. In our sales efforts, and in those of our sales representatives, The Harold M. Pitman Company, California Ink Co., Inc., the G. C. Dom Supply Company, and Latimer, Limited, of Canada, we point out the real merits of the Kemart Process and we sincerely believe that it is superior to all other methods, with similar objectives, old and new, including the Fluorographic Process.

"We have proceeded in this manner to protect you from all liability by reason of your use of the processes licensed under the Kemart patents. May we ask that whatever comes to your attention, directly or indirectly, that may in any way affect this matter, or any communications or notices you may receive from Printing Arts Research Laboratories, Inc., be forwarded to us promptly.

"It is our expectation that the judicial determination of these issues will be brought to trial within the next four months. Meanwhile, you can continue your use of the Kemart Process, and feel secure that all proper steps are being taken."

---

DEFENDANT'S EXHIBIT OO

[Excerpt from Editor and Publisher for April 8, 1939.]

* * * * *

Mr. Marx's technical training has been unusually comprehensive. It includes, after specialized training at eastern universities, post graduate work in spectral analysis and physical chemistry. He owns

Defendant's Exhibit OO—(Continued)

an exceptionally extensive chemistry library. He has also worked as a journeyman engraver in several departments of photoengraving shops. He formerly owned a large photographic studio for advertising illustrations. * * * * *

---

DEFENDANT'S EXHIBIT RR

Albert G. McCaleb (Copy)
3705 The Field Building, Chicago 3
October 6, 1948

Printing Arts Research Laboratories, Inc.
San Marcos Building
Santa Barbara, California

Gentlemen:

Re: Your Marx Patent No. 2,191,939 dated February 27, 1940 and its infringement by the Kemart process of making half-tone negatives.

Pursuant to your recent request, I have reviewed your above identified patent, and the application therefor, and have familiarized myself with the above mentioned Kemart process, to determine whether or not such process infringes such patent.

My conclusions, tersely stated, are as follows:

(1) Anyone who practices the Kemart process infringes several claims of your patent aforesaid.

(2) The Kemart Corporation, sponsor of the Kemart process, is contributorily infringing such patent when it furnishes infringers thereof with supplies, equipment and instructions facilitating their practice of such Kemart process.

Defendant's Exhibit RR—(Continued)

(3) Nothing in either the history of the application for your said patent or any prior art patent or publication which has come to my attention casts any doubt upon the validity of such patent or any of the claims thereof; I believe your said patent will be adjudged valid, and that its claims will be accorded substantial scopes, if it is subjected to the test of litigation.

The Kemart process, in which is employed the so-called Kemart neutralizer (a material absorptive of ultra-violet light) is but a variation of the fluorographic process as disclosed in your subject patent, —a variation of the fluorographic process which plainly falls within and is covered by a number of the patent claims. Even if the Kemart neutralizer were not absorptive of ultra-violet light, the Kemart process would still infringe your herein discussed patent, and more particularly claim 12 thereof; but since such neutralizer is in fact absorptive of ultra-violet light, infringement of several additional claims of the patent by the Kemart process is abundantly clear.

I recommend that all users of the Kemart process, in so far as you are able to identify them, be notified of the existence of your aforesaid patent No. 2,191,939, its nature and coverage, and their infringement thereof.

Yours very truly,

/s/ Albert G. McCaleb,
Albert G. McCaleb.

[Endorsed]: No. 15638. United States Court of Appeals for the Ninth Circuit. Kemart Corporation, a corporation, Appellant, vs. Printing Arts Research Laboratories, Inc., a corporation, Appellee. Transcript of Record. Appeal from the United States District Court for the Southern District of California, Central Division.

Filed: July 22, 1957.

Docketed: July 22, 1957.

/s/ PAUL P. O'BRIEN,
Clerk of the United States Court of Appeals for the Ninth Circuit.

---

In the United States Court of Appeals
for the Ninth Circuit

No. 15638

KEMART CORPORATION,
Plaintiff-Appellant,

vs.

PRINTING ARTS RESEARCH LABORATORIES, INC.,
Defendant-Appellee.

## STATEMENT OF POINTS ON APPEAL

The points upon which plaintiff-appellant intends to rely on appeal are as follows:

1. The District Court erred in making Findings of Fact 1-D, 2, 4, 5, 6, 7, 8, 10, 11, 12, 14 and 15.

2. The District Court erred in making Conclusions of Law 6 and 11.

3. The District Court erred in adjudging that plaintiff take nothing by its claim and that said claim be dismissed.

4. The District Court erred in adjudging that plaintiff receive no award of attorneys' fees.

5. The District Court erred in adjudging that plaintiff shall bear its own costs in respect to proceeding subsequent to the last issued mandate of the Court of Appeals for the Ninth Circuit.

6. The District Court erred in failing to make findings of fact containing the substance of the proposed findings presented on pages 1 to 14, both inclusive, of plaintiff's Motion to Amend Findings of Fact and Conclusions of Law, to Make New Findings and Conclusions and for the Entry of a New Judgment, said proposed findings being incorporated herein by reference.

7. The District Court erred in failing to make conclusions of law incorporating the substance of the proposed conclusions of law presented on pages 14-17 of plaintiff's said motion, said proposed conclusions of law being incorporated herein by reference.

8. The District Court erred in failing to enter judgment in accordance with the proposed paragraphs contained at pages 17 and 18 of plaintiff's said motion, said proposed paragraphs being incorporated herein by reference.

9. The District Court erred in overruling plaintiff's Motion to Amend Findings of Fact and Con-

clusions of Law, to Make New Findings and Conclusions and for the Entry of a New Judgment.

10. The District Court erred in denying plaintiff's motion under Rule 60(b) to vacate and set aside the final judgment entered against plaintiff on December 20, 1956.

11. The District Court erred in failing to determine that the conduct of defendant was forbidden by the Convention of the Union of Paris of March 20, 1883 for the Protection of Industrial Property, as amended in London in 1934 (53 Stat. 1780), particularly Article 10 Bis thereof, which particularly forbids "false allegations in the conduct of trade of a nature to discredit the establishment, the goods or the services of a competitor."

12. The District Court erred in determining that the Convention for the Protection of Industrial Property of the Union of Paris [53 Stat. 1748 (1934)] does not, absent effectuation thereof by the Congress, eliminate the defense of privilege, good faith and absence of malice permitted by the law of Ohio.

13. The District Court erred in determining that the law of Ohio, as interpreted in Int'l Industries & Developments, Inc. v. Farbach Chemical Co., 241 F. 2d 246 (6th Cir. 1957), affirming 145 F. Supp. 34 (S. D. Ohio 1956), must be held to accord a patentee the qualified privilege to publish a charge of patent infringement to other interested persons, even though the charge later proves to be false, if the patentee reasonably and in good faith believes the charge to be true, and the charge was not

prompted by malice, but was made solely in defense of his patent.

14. The District Court erred in failing to determine that the conduct of defendant was forbidden under the rule of International Indus. & Develop. v. Farbach Chem. Co. (6th Cir. 1957) 241 F. 2d 246.

/s/ HENRY GIFFORD HARDY,
/s/ CARL HOPPE,
Attorneys for Plaintiff-Appellant.

[Endorsed]: Filed August 9, 1957. Paul P. O'Brien, Clerk.

---

[Title of Court of Appeals and Cause.]

## STIPULATION

It Is Hereby Stipulated, subject to the approval of the Court, that the printed record in Appeals Nos. 12,948, 13,601 and 14,299, including the books of exhibits, may be considered by the Court on this appeal without the necessity of reproduction.

Dated this 19th day of August, 1957.

/s/ CARL HOPPE,
Attorney for Plaintiff-Appellant.
LYON & LYON,
/s/ By LEONARD S. LYON, JR.,
Attorneys for Defendant-Appellee.

It Is So Ordered this 19th day of August, 1957.

/s/ ALBERT LEE STEPHENS,
Chief Judge.

[Endorsed]: Filed August 20, 1957. Paul P. O'Brien, Clerk.

# No. 15638

# United States
# Court of Appeals
## for the Ninth Circuit

KEMART CORPORATION, a corporation,
Appellant,

vs.

PRINTING ARTS RESEARCH LABORATORIES, INC., a corporation, Appellee.

# Supplemental
# Transcript of Record

Appeal from the United States District Court for the Southern District of California, Central Division



Phillips & Van Orden Co., 870 Brannan Street, San Francisco, Calif.—9-16-57

# No. 15638

# United States
# Court of Appeals
## for the Ninth Circuit

KEMART CORPORATION, a corporation,
Appellant,

vs.

PRINTING ARTS RESEARCH LABORATORIES, INC., a corporation, Appellee.

## Supplemental
# Transcript of Record

Appeal from the United States District Court for the Southern District of California, Central Division

# INDEX

[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in italic; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in italic the two words between which the omission seems to occur.]

In the Supreme Court of Ohio
Error to the Court of Appeals of Cuyahoga County

Case No. 21428

Harry J. McCue, Plaintiff in Error,

vs.

Hugh Wells, Trustee The Henry Gehring Company, a Corporation, Defendant in Error.

[Printed Record Beginning on Page 1]

PETITION IN ERROR

[Filed in Supreme Court Jan. 30, 1929.]

Now comes Harry J. McCue, Plaintiff in Error, and respectfully represents that at the September, 1928, term of the Court of Appeals in and for Cuyahoga County, State of Ohio, to wit: on the 8th day of September, 1927, the Defendant in Error, The Henry Gehring Company, recovered judgment against the Plaintiff in Error, Harry J. McCue, in which cause this Plaintiff in Error was Plaintiff in Error and the Defendant in Error was Defendant in Error, being cause No. 8833 on the docket of said court; that by said judgment of said Court of Appeals, a judgment of the Court of Common Pleas of Cuyahoga County, Ohio, in favor of the Defendant in Error in an action in which said Defendant in Error was Defendant, and the Plaintiff in Error was Plaintiff, was affirmed.

This Plaintiff in Error further says that by virtue

of an order of the Court made and entered on the 23rd day of January, 1929, his Motion for an order requiring said Court of Appeals of Cuyahoga County to certify its record to this court, for review and final determination was granted. A certified copy of the Docket and Journal Entries, together with the original papers, Bill of Exceptions, and proceedings in said cause are filed herewith and made a part hereof.

Plaintiff in Error says that there is error in said record and proceedings prejudicial to the Plaintiff in Error, in this, to wit:

1: Said Court of Appeals erred in affirming the judgment of the Common Pleas Court of Cuyahoga County, which was in favor of the Defendant in Error.

2: Said Court of Appeals erred in failing to reverse said judgment of the Court of Common Pleas of Cuyahoga County.

3: Said Court of Appeals erred in holding that the Court of Common Pleas committed no error in overruling the Supplemental Motion for a New Trial of the Plaintiff in Error on the ground of newly discovered evidence.

4: Said Court of Appeals erred in holding that the Court of Common Pleas committed no error in its charge to the jury on the trial of said action.

5: Said Court of Appeals erred in holding that the Court of Common Pleas committed no error in admitting evidence of said Defendant in Error to which Plaintiff in Error objected.

6: Said Court of Appeals erred in holding that the Court of Common Pleas committed no error in rejecting evidence offered by Plaintiff in Error.

7: Said Court of Appeals erred in holding that the Court of Common Pleas committed no error in overruling the motion of the Plaintiff in Error for a directed verdict at the close of the case of the Defendant in Error.

8: Said Court of Appeals erred in holding that the Court of Common Pleas committed no error in overruling the Motion of the Plaintiff in Error at the close of the whole case.

9: Said Court of Appeals erred in failing to hold that said judgment of the Court of Common Pleas was manifestly against the weight of the evidence.

10: Said Court of Appeals erred in failing to hold that excessive damages had been given under the influence of passion or prejudice.

11: Said Court of Appeals erred in holding that the verdict is sustained by the evidence.

12: Said judgment of the Court of Appeals is contrary to law and the evidence.

13: Other errors apparent on the fact of the record.

JOY SETH HURD,
Attorney for Plaintiff in Error.

Waiver of Summons follows.

[Page 13]

PETITION

[Filed in Common Pleas Court Feb. 6, 1925.]

Comes now the plaintiff, The Henry Gehring Company, and for its cause of action against the defendant says that it is a corporation duly organized and existing according to law, and is and has been engaged in the business of manufacture, sale and use of dispensers of liquid beverages; that the defendant is doing business under the trade name of The Humphrey Dispenser Company, and is also in the business of manufacturing vending machines for the dispensing of beverages.

Now the plaintiff says that heretofore, and particularly during the month of September, 1924, but also before and after said date, the defendant wrote and sent through the United States Mails to various of the customers of the plaintiff communications reading as follows:

"The Humphrey Dispenser Company and the writer, owning and operating under the Humphrey Patents on Dispenser apparatus and Processes of David S. Humphrey, have, after being advised by Patent Lawyers of New York and two firms in Cleveland, brought suit to enjoin the use of Polar Spray Dispensing devices, because they infringe the Humphrey Process patent No. 1,243,068.

It is our intention to proceed against all infringements of these patents, and to prosecute them vigorously. At the present time we have started suit against Henry Gehring Company in the United

States Court of Cleveland for using and selling the Polar Spray dispensing apparatus, as its use constitutes infringement of that patent and possibly others.

We have previously actually filed another suit to enjoin infringement by a similar apparatus, and have instructed our Patent Lawyers to bring additional suits, which they are now preparing to do.

If you desire any further information we refer you to Bates, Macklin, Golrick and Teare, of Cleveland, who are handling this litigation.

It occurred to the writer that a word of warning would be considered by you to be valuable, and it may lead to avoiding trouble in the future."

Now the plaintiff says that the defendant, for the purpose of harassing and annoying the plaintiff and embarrassing it in and about the sale of its goods, wares and merchandise, filed a suit in the United States District Court for the Northern District of Ohio, Eastern Division, against this plaintiff, same being case No. 1279 upon the equity docket of said court, and falsely alleging a patent infringement; that thereupon and thereafter the said defendant proceeded to circularize the customers of the plaintiff with highly improper and damaging communications of the kind, character and nature set forth herein, and communicated by telephone, by word of mouth and otherwise with the customers of the defendant, threatening them with litigation and falsely accusing the plaintiff of infringing the letters patent of defendant, and that through and by

such methods of unfair competition the defendant caused a large portion of the trade of the plaintiff to be interrupted, halted and stopped, and prevented customers and prospective customers of the plaintiff from making purchases, and caused an injury and damage to the plaintiff in the sum of Twenty-five Thousand Dollars ($25,000.00).

Wherefore, plaintiff prays judgment against the defendant in the sum of Twenty-five Thousand Dollars ($25,000.00), and for its costs.

THE HENRY GEHRING
COMPANY,
By HENRY GEHRING,
President,
TURNEY & SIPE,
Its Attorneys.

Duly Verified.

---

## ANSWER AND CROSS PETITION

[Filed in Common Pleas Court Dec. 1, 1926.]

### Answer

Now comes the defendant and admits that the plaintiff is a corporation duly organized and existing according to law, and that the defendant at the time of filing said petition was doing business under the trade name of the Humphrey Dispenser Company and is in the business of manufacturing machines and improvements for dispensing of beverages.

Defendant also admits sending through the

United States mails to various persons and firms a letter, copy of which is substantially as set forth in plaintiff's petition. Defendant also admits the filing of a suit in the United States District Court for the Northern District of Ohio, Eastern Division, against the plaintiff herein, said cause being No. 1279 upon the equity docket of said court.

Each and every other allegation in said petition contained this answering defendant denies generally and specifically and prays that the petition of plaintiff against him may be dismissed at plaintiff's costs and the defendant awarded judgment against the plaintiff on his cross petition as hereinafter set forth.

---

[Page 25]

## SUPPLEMENTAL ANSWER AND COUNTER CLAIM

[Filed in Common Pleas Court June 10, 1927.]

Now comes the defendant and by way of supplemental answer and counter claim, says that since the commencement of this action by the plaintiff and on or about the 7th day of May, 1927, the plaintiff was duly adjudged a bankrupt by the United States District Court for the Northern District of Ohio, Eastern Division, and one, Hugh Wells, was duly appointed, selected and qualified as plaintiff's trustee and thereupon, all of the property, including the claim in this suit, vested in said trustee, and defendant asks that said trustee be made a party to this action.

Defendant admits that prior to the said adjudication in bankruptcy that the plaintiff was a corporation duly organized and existing according to law and that the defendant at the time of filing of said petition was doing business under the trade name of the Humphrey Dispenser Company and was in the business of manufacturing machines and improvements for dispensing of beverages. Defendant also admits sending through the United States mails to various persons and firms a letter, copy of which is substantially as set forth in plaintiff's petition.

Defendant also admits the filing of a suit in the United States District Court for the Northern District of Ohio, Eastern Division, against the plaintiff herein, said cause being No. 1279 upon the equity docket of said court, and that said suit was dismissed without prejudice upon application of the defendant and by authority of said court. Defendant further says that the statements contained in said letter and letters, are true and that said letters were written and sent in good faith and upon advice of competent counsel skilled in such matters.

Each and every other allegation in said petition contained this answering defendant denies generally and specifically and prays that the petition of plaintiff against him may be dismissed at plaintiff's costs and the defendant awarded judgment against the plaintiff on his counter claim as hereinafter set forth.

[Title of Supreme Court and Cause.]

## BRIEF ON BEHALF OF PLAINTIFF IN ERROR BEGINNING ON PAGE 10

### Argument and Law

The court erred in rejecting the evidence offered by the defendant below tending to show the truth of the statements complained of as libelous. Reference is now made to the petition of the plaintiff and particularly the letter incorporated therein. This letter and similar letters (Record page 14, Exhibits B, C, D, E and F) is the basis of the entire complaint against the defendant.

The gist of the complaint is that the statements contained in this letter are not true; that these letters falsely allege a patent infringement and threaten litigation and falsely accuse the plaintiff of infringing the Letters Patent of the defendant. If the statements contained in this letter are untrue, the defendant would be guilty of libel, and under the law, if the plaintiff could show that said letter was untrue and that the defendant had sent the same with malice and that special damages had resulted, it would be entitled to recover against the defendant. We maintain that this action by whatever name it may be called, is, when properly analyzed, an action for damages for libel, or slander of title of plaintiff's personal property, the gist of the complaint being that the defendant has falsely accused the plaintiff of infringing upon the Letters Patent of the defendant.

This proposition was covered by our Supreme Court in an early Ohio case entitled "Watson vs. Trask, 6 O. 531," wherein it was held:

"Publishing that a man's business is an infringement of another's patent, and warning the public against buying from him, is libelous."

Watson vs. Trask, 6 Ohio 531.

The defendant in this case is charged with such a libel and in defense has pleaded and offered to prove that the statements claimed to be false are in fact true. We submit that it is the law of Ohio that the truth of the statements made or printed, is a complete defense.

Section 11342 of the General Code of Ohio is as follows:

"In an action for libel or a slander, the defendant may allege and prove the truth of the matter charged as defamatory. Proof thereof shall be a complete defense. In all such actions any mitigating circumstances may be proved to reduce damages."

This is the general law throughout the United States with respect to actions for slander and libel.

"The rules governing the admissibility of evidence generally are applicable to the admission of evidence to prove the truth of the defamatory words in an action for libel or slander and so all facts and circumstances bearing directly on the charge and tending to prove its truth may be introduced in support thereof."

17 R.C.L., Sec. 170, 412.

This ruling is supported by many cases as follows:

Stow vs. Converse, 3 Conn. 325, 8 Am. Dec., 189;

Barry vs. McCollom, 81 Conn. 293, 70 Atl. 1035, 129 A. S. R. 215;

Burt vs. Advertiser Newspaper Co., 154 Mass. 238, 28 N. E. 1, 13 L. R. A. 97;

Uhlman vs. Farm, etc., Co., 126 Minn. 239, 148 N. W. 102, Ann. Cas. 1915 D 888 and note;

Weltmer vs. Bishop, 181 Mo. 110, 71 S. W. 167, 65 L. R. A. 584;

Woolley vs. Plaindealer Publ. Co., 47 Ore. 619, 84 Pac. 473, 5 L. R. A. (N.S.) 498;

Cotulla vs. Kerr, 74 Tex. 89, 11 S. W. 1058, 15 A. S. R. 819.

"At common law and often times by force of constitutional or statutory provision under some limitations, truth of a charge is a defense to a civil action for defamation. In the absence of the statutory or constitutional provision to the contrary, the general rule is that in all civil actions of libel or slander, defendant is justified in law and exempt from all civil responsibility, where he alleges and establishes the truth of the matter charged as defamatory, whether the words are actionable per se or per quod and notwithstanding the publication was malicious, or without reason on the part of the defendant to believe the imputation to be true; and it has been held that proof of the truth of the charge is a complete defense, regardless of the innuendo annexed."

36 C. J., 1231, Sec. 193, and a long list of cases thereunder cited.

The defendant, in the trial of the case, (Record pages 148-149-150-151), offered to prove the truth of the letters complained of by showing that the device used by the plaintiff was in fact an infringement of the Letters Patent of the defendant. The defendant offered to prove the same by testimony of an expert witness called for the purpose of giving expert testimony. He had qualified as an expert witness, but was not permitted by the court to give testimony tending to show that the charge made in the letter that the plaintiff had been infringing the patent rights of the defendant, was true. The court refused to permit this testimony on the ground that such testimony was for the exclusive jurisdiction of the Federal Court, for the reason that the Federal Court has jurisdiction exclusively in the matter of questions involving infringement and patent rights, the court saying: (Record page 151)

"The court has no jurisdiction to inquire into cases of the infringement of a patent." (Record page 151)

The defendant objected to and excepted to the ruling of the court and made the offer to prove, by the opinion of the expert witness, the truth of the letters referred to as Plaintiff's Exhibits B, C, D, E and F by showing that the same, (the polar spray dispensing apparatus) was an infringement of the defendant's patent. (Record page 151)

The court, throughout the trial of the case, re-

fused to permit any testimony on the part of the defendant, tending to show that the plaintiff had in fact been infringing upon the patent rights of the defendant and that the statements contained in the letters complained of were in fact true. This action of the court in refusing to permit the testimony which would show the truth of the statements contained in the letter and complained of, on the ground that such testimony could not be offered in a State Court, but was for the exclusive jurisdiction of the Federal Court, combined to deprive the defendant of his day in court and was prejudicial error on the part of the court.

We respectfully submit that either the Court of Common Pleas did not have jurisdiction of the action, or if it did have jurisdiction of the action, then the defendant was entitled to present his defense, even though it did involve a question affecting the infringement of a patent right.

As will be noted further in this brief, we contend that the burden of proof in this case was upon the plaintiff to prove the falsity of the publication in the first instance, as well as malice and special damage before he would be entitled to recover. If this is accepted as the law of the case, as we believe it should be, not only is a defendant entitled to allege and prove the truth of statements in such a case, but the burden is upon the plaintiff to prove the falsity in the first instance, on the theory that this is an action not for a libel of a person, but for slander of title, so called, which is in the nature of

an action of trespass on the case for special damages sustained by reason of the speaking or the publication of the slander or libel of the plaintiff's title. This type of action has been denominated "slander of title" by a sort of figure of speech in which the title is personified and is subject to many of the rules applicable to personal slander and libel, when the words themselves are not actionable. We will treat on this subject under the head of: "Error on the part of the court in refusing to direct a verdict upon the close of the plaintiff's case" and also, "Error on the part of the court in refusing to direct a verdict at the close of the whole case" and also, "for error on the part of the Court in its charge to the jury." In any event we submit that the defendant should have been permitted to show the truth as a defense.

Error of the Court in Refusing to Direct a Verdict for the Defendant at the Close of Plaintiff's Case.

The court committed error in not granting the motion of the defendant to arrest the testimony from the jury and to direct a verdict for the defendant on the ground that the plaintiff had not introduced evidence sufficient to constitute a cause of action. That the instant case comes within that class of cases known in law as "slander of title or property" there can be no question, and by reason thereof there can be no question that the rules of law governing such cases are applicable to the instant case.

Slander of Title, or Disparagement of Property Defined.

An action for slander of title is an action for special damage sustained by reason of the speaking of slander of the plaintiff's title to property.

"The action in its nature is not properly for words spoken or for a libel written or published, but is in the nature of an action of trespass on the case for special damages sustained by reason of the act of the defendant. The cause of action is denominated 'slander of title' by a sort of figure of speech in which the title is personified and is subject to many of the rules applicable to personal slander when the words themselves are not actionable. The action lies for the slander of title to personalty, as well as realty. Numerous illustrations of circumstances giving rise to the action may be given."

17 R. C. L., Sec. 216, pg 454.

It is held that this type of action covers the malicious charge that plaintiff has infringed the patent rights of the defendant:

"An action lies also for a malicious charge that the plaintiff has infringed the patent rights of the defendant, thereby injuring the plaintiff in the sale of his merchandise."

17 R. C. L., Sec. 216, p. 455. (About middle of page.)

Numerous cases are cited for this proposition as follows:

Flint vs. Hutchinson Smoke Burner Company,

110 Mo. 492, 19 S. W. 804; 33 A. S. R. 476, 16 L. R. A. 243;

Hovey vs. Rubber Tip Pencil Company, 57 N. Y. 119; 15 Am. Rep. 470, wherein the action was dismissed on other grounds.

Corpus Juris defines it as follows:

"The term 'slander of title' has by common use become a well known and recognized phrase of the law. The original application of the term 'slander' was applied more to words or utterances, the nature of which were defamatory to the character of an individual. The term however, has been applied to utterances and words made with reference to property, whether real or personal. The action is denominated 'slander of title' by a sort of figure of speech in which the title is personified. Slander of title may be defined as a false and malicious statement, oral or written, made in disparagement of a person's title to real or personal property, or of some right of his causing him special damage."

37 C. J., 129, Sec. 591, and numerous cases therein cited in support of the text, similar definitions being given as follows:

"Utterance of false and malicious statements disparaging the title to property in which one has an estate or interest, if the statements are untrue and cause damage, constitutes slander of title."

Kelly vs. Rothsay 1st State Bank, 145 Minn. 331, 332; 177 N. W. 347, 9 A. L. R. 929.

"Slander of title, as recognized by the law, may be defined to be defamation of title to property, real or personal, by one who falsely and maliciously

disparages the title thereto and thereby causes the owner thereof some special pecuniary loss or damage."

Farren vs. Fodera, 169 Cal. 370, 379. 148 P. 200, 202.

That this applies to cases involving title of letters patent, copyrights, etc., is quite well settled.

"An action will lie for slander of title to letters patent, copyrights or trademarks."

37 C. J., 130, Sec. 595 and cases thereunder cited.

In addition to the case of Flint vs. Hutchinson Smoke Burner Company, 110 Mo. 492, there is cited also, Meyrose vs. Adams, 12 Mo. A. 329; Germproof Filter Company vs. Pasteur Chamberland Filter Company, 81 Hun. par. 49, 30 N. Y. S. 584; Hygienic Fleeced Underwear Company vs. Way, 35 Pa. Super 229.

In all of these cases involving slander of title, the words spoken or printed are not in themselves actionable.

"But the publication of false and malicious statements disparaging of plaintiff's property, or the title thereto, when followed as a natural, reasonable and proximate result by special damage to the owner, are actionable. The false statement may consist of an assertion that plaintiff has no title to the property of which he is the ostensible owner, or that his title is defective, or that defendant has an interest in, or lien upon the property."

37 C. J., Sec. 594, p. 130.

As distinguished from the rule of those cases where the words are actionable per se, in slander of

title cases the words are not actionable per se and the duty is upon the plaintiff to allege and prove:

1. The falsity of the statement of charge.
2. The malice of the charge.
3. Special damages.
4. Publication.

As to Falsity of Charge

The falsity of the words published is a necessary element to maintain the action.

"If the alleged defect or infirmity in title or property exists, the action will not lie."

37 C. J., Sec. 597, p. 131.

"The burden of proof is upon the plaintiff to establish his cause of action, this rule being applied to the falsity of the publication."

37 C. J., 134, Sec. 614.

As to Question of Malice

It has been universally held that it is essential that the plaintiff prove that the defendant acted maliciously and that malice is an essential element of the action.

"Malice is a necessary ingredient to entitle plaintiff to recover. Indeed it is said that malice is the gist of the action. The action cannot be maintained if the claim was asserted by defendant in good faith and if the act complained of was founded upon probable cause or was prompted by a reasonable belief, although the statement may have been false."

37 C. J., 131, Sec. 598.

"In an action for slander or title or for dispar-

agement of goods or property, it is essential that the plaintiff prove that the defendant acted maliciously in uttering the words in question."

17 R. C. L., Sec. 218, p. 456.

As to Question of Special Damages

The plaintiff must allege and prove special damages.

"The utterance of a mere falsehood, however malicious, is not alone sufficient to sustain an action for slander of title or property. Special damages are the gist of the action and without them the action cannot be maintained. Plaintiff must have sustained a pecuniary loss as the direct and natural result of the publication of the words. There can be no right of action when the damages result not from the plaintiff's act, but from the voluntary act of the defendant."

37 C. J., 132, Sec. 600.

"As words spoken of property are not in themselves actionable and special damages essential to maintain the action, an averment of special damage is necessary. It is necessary to allege the facts which show wherein plaintiff has sustained damage and such damage must be distinctly and particularly set out. An allegation of loss in general terms is not sufficient. The complaint or petition must show that the damages are the natural and probable consequence of the slander."

37 C. J., 132, Sec. 600.

We have examined the cited cases on this subject and find that the subject matter of these cases is analagous to the subject matter of the instant case.

For instance, in the case of Flint vs. Hutchinson Smoke Burner Company, 110 Mo. 492, the complaint alleged that the defendant falsely and maliciously notified persons to whom the plaintiffs were about to sell their device, that it infringed the defendant's patents.

In the case of Meyrose et al. vs. Adams, et al., 12 Mo. App. Rep. 329, the petition alleges that the plaintiffs were engaged in the manufacture and sale of lanterns, doing an extensive and profitable business and that the defendants, intending to injure the plaintiffs, did write and circulate among plaintiff's patrons, false and malicious statements to the effect that if any person bought lanterns from the plaintiff, he would be subject to a suit, since these Letters Patents, Licenses, granted by the owner to the plaintiff, had been revoked.

In the case of Hovey et al. vs. Rubber Tip Pencil Company, 57 N. Y., 119, the complaint of the plaintiff alleged in substance that they were the owners of a valuable right, secured by Letters Patent, and were engaged in the manufacture of the patented article and that the defendant had printed, published and circulated a circular claiming it to be the owner of various Letters Patent securing such right and was exclusively authorized to make and sell such patent articles and threatening prosecution for infringement of its right, in consequence whereof plaintiffs were injured.

In the case of Fant vs. Sullivan, Texas Civil Appeals, 152 S. W. 515, and in the case of Cardon vs. McConnell, 120 N. C. 461; 27 S. E. 109, Supreme

Court of N. Carolina, similar complaints were made.

In all of these cases the courts held that it was essential that the plaintiff allege and prove special damage, the falsity of the publication and malice. The facts in these cases are similar to the case at bar, as in the case at bar the plaintiff complains that the defendant, by letter and word of mouth, notified its customers that the article of the plaintiff was an infringement upon the patent rights of the defendant, in this case the article being a machine for carbonating beverages.

In the instant case, however, while the falsity of the statement was alleged in the petition, malice was not alleged, neither were special damages alleged. A careful reading of the record of the plaintiff's testimony shows that there was no evidence introduced by the plaintiff showing, or tending to show that the publication complained of was false. There was not a scintilla of evidence showing, or tending to show any malice on the part of the defendant and there was no evidence introduced showing special damages. As these elements were an essential part of the plaintiff's case, the burden being upon the plaintiff to introduce evidence on these points, the court should have sustained the Motion of the defendant to direct a verdict at the close of plaintiff's case.

* * * * *

For all the foregoing reasons, the record failing to show any evidence by the plaintiff tending to show the falsity of the publication and failing to

show any evidence tending to prove malice on the part of the defendant and failing to show any special damage, the Motion to direct the verdict at the close of plaintiff's case should have been sustained and the Motion to direct a verdict at the close of the whole case should have been sustained.

We shall now take up the question of error of the court in its charge to the jury.

* * * * *

---

The Supreme Court of the State of Ohio,
Of the Term of January, A. D. 1956

To wit: Wednesday, May 28, 1929

ERROR TO THE COURT OF APPEALS
OF CUYAHOGA COUNTY

This cause came on to be heard upon the transcript of the Record of the Court of Appeals of Cuyahoga County, and was argued by counsel. On consideration whereof, it is ordered and adjudged by this Court, that the Judgment of the said Court of Appeals be and the same is hereby, reversed for the reasons stated in the opinion filed herein; and this Court proceeding to render the judgment that the Court of Appeals should have rendered, it is ordered and adjudged that the judgment of the Court of Common Pleas be, and the same hereby is, reversed and said cause is hereby remanded to the Common Pleas Court of Cuyahoga County for a new trial.

* * * * *

Certification Attached.

[Endorsed]: No. 15638. United States Court of Appeals for the Ninth Circuit. Kemart Corporation, a corporation, Appellant, vs. Printing Arts Research Laboratories, Inc., a corporation, Appellee. Transcript of Record. Appeal from the United States District Court for the Southern District of California, Central Division.

Filed: July 22, 1957.

Docketed: July 22, 1957.

/s/ PAUL P. O'BRIEN,

Clerk of the United States Court of Appeals for the Ninth Circuit.

No. 15,638

In the

# United States Court of Appeals

*For the Ninth Circuit*

KEMART CORPORATION,
*Plaintiff-Appellant,*
vs.
PRINTING ARTS RESEARCH LABORATORIES, INC.,
*Defendant-Appellee.*

## Appellant's Opening Brief


HENRY GIFFORD HARDY
410 Mills Building
San Francisco 4, California

CARL HOPPE
2610 Russ Building
San Francisco 4, California





PARKER PRINTING COMPANY, 180 FIRST STREET, SAN FRANCISCO

INDEX

## TABLE OF AUTHORITIES

### Cases Cited

## STATUTES AND RULES

## OTHER AUTHORITIES

No. 15,638

In the

# United States Court of Appeals

*For the Ninth Circuit*

KEMART CORPORATION,
*Plaintiff-Appellant,*
vs.
PRINTING ARTS RESEARCH LABORATORIES, INC.,
*Defendant-Appellee.*

## Appellant's Opening Brief

This appeal is from the judgment entered by the District Court, District Judge Mathes presiding, upon the mandate of this Court in *Kemart Corporation v. Printing Arts Research Lab.* (9th Cir. 1956) 232 F.2d 897, Docket 14,299.

The memorandum decision of the District Court is reported as *Kemart Corporation v. Printing Arts Research Lab.* (S.D. Cal. C.D. 1956) 146 F. Supp. 21.

This case is now before this Court on the merits of (1) plaintiff's claim for damages resulting from the defendant's alleged wrongful acts and doings in publishing false charges that plaintiff and plaintiff's Kemart process infringed defendant's Marx patent 2,191,939 and (2) plaintiff's claim that it is entitled to statutory attorney's fees for defending a patent infringement counterclaim

wrongfully charging it with infringing said Marx patent 2,191,939 The District Court decreed that plaintiff shall take nothing by sai claim, and that plaintiff shall receive no award of attorney's fees This appeal followed.

This case is before this Court for the fourth time. On appeal No 12,948, this Court held that plaintiff did not infringe said Mar patent 2,191,939, and ordered that defendant's counterclaim fo patent infringement be dismissed (*Kemart Corp. v. Printing Art Research Laboratories* (9th Cir. 1953) 201 F.2d 624). Appeal No 13,601 (entitled as above) became moot upon the decision i No. 12,948, and was dismissed. On appeal No. 14,299 this Cour upheld in the main the taxation of costs ordered by the Distric Court upon the return of the mandate on appeal No. 12,948, bu this Court further held that plaintiff was entitled to a determina tion of its claims for damages and statutory attorney's fee (*Kema Corporation v. Printing Arts Research Lab.* (9th Cir. 1956) 23 F.2d 897).

By a stipulated order entered on August 20, 1957, the prio printed records may be considered by this Court without the neces sity of reproduction (R. 292). In this brief, record references (R .....) refer to the instant appeal No. 15,638; record reference (RA. .....) refer to printed record on appeal No. 12,948; recor references (RB. .....) refer to the printed record on appeal No 13,601; and record references (RC. .....) refer to the printed recor on appeal No. 14,299.

## JURISDICTION

Jurisdiction of the District Court is based upon diversity o citizenship and amount in controversy under U. S. Code, Title 28 Section 1332 (R. 20, 30). Plaintiff is a California corporation (R 1, 9); defendant is a Delaware corporation (R. 1, 10); and th amount in controversy is in excess of $3,000 exclusive of interes and costs (R. 4, 11). The District Court also appears to hav

jurisdiction under U.S. Code, Title 28, Sections 1331, 1338, 2201 and 2202.

Jurisdiction of this Court is based upon U.S. Code, Title 28, Section 1291, the appeal being from a final decision of the District Court entered on December 19, 1956 (R. 26-32). A timely motion to amend was filed on January 2, 1957 (R. 32-54) and was denied on January 4, 1957 (R. 55). The notice of appeal was filed on January 21, 1957 (R. 56), within thirty days after the denial of the motion to amend as required by U.S. Code, Title 28, Section 2107 and Rules 73(a) and 73(b) of the Federal Rules of Civil Procedure.

## STATEMENT OF THE CASE

### Questions Presented.

This appeal involves the following principal questions:

1. Where a patentee, at a national trade convention held in Ohio, publishes written charges that its competitor and its competitor's process licensed to the industry both infringe the patentee's patent, and where the patentee subsequently repeats such charges in advertising and in press releases published in a national trade journal, and where such charges are later determined to be false, is it a complete defense to a claim for damages that the patentee reasonably and in good faith believed the charge of infringement to be true and that it was not prompted by malice but acted solely in defense of its patent?

The District Court in its Conclusion of Law No. 6 (R. 30-31) answered this question in the affirmative. Appellant contends that defendant's good faith and absence of malice, even if proved, do not constitute a complete defense to plaintiff's claims for damages arising from publications of such false charges of patent infringement.

2. If question 1. is answered in the affirmative, does the record establish the defense that defendant reasonably and in good faith did believe the charge of infringement to be true, that it was not

prompted by malice, and that it acted solely in defense of its patent?

The District Court answered this question in the affirmative in its Findings of Fact Nos. 2, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 14 (R. 27-30). Appellant contends that the evidence does not support the defense, even if it were a legally complete defense.

3. Are attorney's fees proper where the action is brought about by defendant's publication, in Ohio, of defamatory charges directed toward plaintiff and plaintiff's process, where defendant at the time of publishing the charges had made no factual investigation of plaintiff's process, where defendant at the trial misrepresented the scientific background of its only witness and the state of prior art, and where defendant throughout the proceedings manifested personal animosity toward plaintiff?

The District Court found that attorney's fees were not justifiable upon such a record (Findings No. 10, 11, 12, 13, 14, 15, Conclusion No. 11, Judgment paragraph 3, R. 29-32). Appellant contends that, upon the instant record, a denial of attorney's fees is an abuse of discretion.

**The Proceedings Below.**

Plaintiff commenced the instant action by a complaint filed on November 23, 1948 praying for declaratory relief and for damages resulting to plaintiff from defendant's wrongful acts and doings in connection with circulating letters and statements that plaintiff's process, the Kemart process, is an infringement of Marx patent 2,191,939, in as much as the plaintiff's process does not individually or collectively infringe said patent or any claim thereof (R. 7-9). Defendant on March 4, 1949 filed its answer to the complaint (R. 9-13) together with a counterclaim (R. 13-14). On October 24, 1949 defendant filed an amended and supplemental counterclaim charging plaintiff with infringing all of the claims of patent 2,191,939 with the exception of claims 5 and

7 thereof (R. 14-15). Plaintiff in its answer to the counterclaim denied both validity and infringement (R. 15-19).

The District Court, on January 31, 1951, adjudged that plaintiff was guilty of infringing all of the claims patent except 5 and 7 thereof (RA. 53-56). This Court, on appeal No. 12948 found that plaintiff did not infringe said Marx patent and reversed the judgment of the District Court with instructions to dismiss the counterclaim (*Kemart Corp. v. Printing Arts Research Laboratories* (9th Cir. 1953) 201 F.2d 624).

During the pendency of appeal 12948, plaintiff brought a motion to modify the injunction (RB. 3-13). This motion was denied (RB. 39). Plaintiff then brought appeal No. 13601 in this Court (RB. 1-44 and accompanying exhibits). Appeal No. 13601 was dismissed by stipulated order on January 28, 1954, the question on appeal having become moot by virtue of the decision in appeal 12948.

On December 7, 1953, the District Court entered its judgment pursuant to the mandate of this Court on appeal No. 12948, and struck out of a proposed judgment paragraphs 9 and 12 relating to damages and to the assessment of reasonable attorney's fees (RC. 13-14). Plaintiff appealed to this Court on appeal No. 14,299. This Court reversed the judgment of the District Court with instructions to answer the questions relating to plaintiff's claim for damages and a reasonable attorney's fee (*Kemart Corporation v. Printing Arts Research Lab.* (9th Cir. 1956) 232 F.2d 897).

The District Court then granted a hearing on these questions. New and further evidence directed to these issues was presented (R. 81-204, 251-288). By consent of both parties, the District Court reserved the issue as to the amount of damages until after a ruling on the question of liability (R. 101).

The District Court on November 5, 1956 handed down its memorandum order for findings of fact, conclusions of law, and judgment in favor of defendant (R. 20-26). In the main, the

District Court was of the view that defendant reasonably and in good faith believed, upon advice of counsel, the charges of infringement to be true, that it was not prompted by malice, but that it had acted solely in defense of the patent and that such conduct was a complete defense to a claim for damages.

On December 19, 1956, the District Court entered its findings of fact, conclusions of law and judgment (R. 26-32).

The crucial Findings of Fact are that defendant believed that the Marx patent was valid and infringed by virtue of an opinion of experienced, although interested, patent counsel and not upon careless ascertainment of defendant's patent rights; that the publications by defendant were for the purpose and with the intent on the part of defendant to defend its own patent interests, rather than to injure plaintiff's business; that the charges of infringement were made in good faith without malice to interested persons and that its misrepresentation as to the scientific background of its only witness and as to the state of the prior art were not material (Findings No. 2, 4, 5, 6, 7, 8, 11, 12, R. 27-29).

The crucial Conclusions of Law are that the Ohio law grants a qualified privilege to publications of false charges of infringement provided only that good faith and absence of malice constitutes a complete defense to a claim of unfair competition or trade libel (Conclusion No. 6, R. 30-31) so that plaintiff is not entitled to attorney's fee (Conclusion No. 11, R. 31).

Plaintiff on January 2, 1957 filed its motion to amend findings of fact and conclusions of law, to make new findings and conclusions and for the entry of a new judgment (R. 32-54). The District Court denied this motion on January 4, 1957 (R. 55).

After the notice of appeal was filed on January 21, 1957 (R. 56) plaintiff brought a motion to vacate and set aside the final judgment (R. 56-67). On June 21, 1957 the plaintiff's motion to vacate the final judgment was denied (R. 67-69).

**The Evidence.**

Since the decision below was decided against it, plantiff cites only undisputed evidence, such as defendant's admissions, stipulated facts, documentary evidence, and unrebutted oral testimony of plaintiff's witnesses in detailing the material evidence.

Plaintiff and defendant are business competitors in their respective businesses of granting licenses under their respective processes, i.e. the "Kemart Process" of plaintiff and the "Fluorographic Process" of defendant, and they have been such competitors ever since June, 1947 (Finding 1-D, R. 27). The parties have stipulated that the business of plaintiff is that "of granting and renewing and servicing licenses to photoengravers and lithographers throughout the United States under the Berry patents numbers 2,395,985 and 2,395,986." (R. 26).

On October 6, 1948, one Albert G. McCaleb prepared a written opinion addressed to defendant in which he said (defendant's exhibit RR, R. 287-288):

> "Re: Your Marx Patent No. 2,191,939 dated February 27, 1940 and its infringement by the Kemart process of making half-tone negatives.
>
> "Pursuant to your recent request, I have reviewed your above identified patent, and the application therefor, and have familiarized myself with the above mentioned Kemart process, to determine whether or not such process infringes such patent.
>
> "My conclusions, tersely stated, are as follows:
>
> "(1) Anyone who practices the Kemart process infringes several claims of your patent aforesaid.
>
> "(2) The Kemart Corporation, sponsor of the Kemart process, is contributorily infringing such patent when it furnishes infringers thereof with supplies, equipment and instructions facilitating their practice of such Kemart process.
>
> "(3) Nothing in either the history of the application for your said patent or any prior art patent or publication which has come to my attention casts any doubt upon the validity of such patent or any of the claims thereof; I believe your

said patent will be adjudged valid, and that its claims will be accorded substantial scopes, if it is subjected to the test of litigation.

"The Kemart process, in which is employed the so-called Kemart neutralizer (a material absorptive of ultra-violet light) is but a variation of the fluorographic process as disclosed in your subject patent,—a variation of the fluorographic process which plainly falls within and is covered by a number of the patent claims. Even if the Kemart neutralizer were not absorptive of ultra-violet light, the Kemart process would still infringe your herein discussed patent, and more particularly claim 12 thereof; but since such neutralizer is in fact absorptive of ultra-violet light, infringement of several additional claims of the patent by the Kemart process is abundantly clear.

"I recommend that all users of the Kemart process, in so far as you are able to identify them, be notified of the existence of your aforesaid patent No. 2,191,939, its nature and coverage, and their infringement thereof."

On their way to the Cleveland convention of the American Photoengravers Association, Walter S. Marx and William Pensinger discussed the matter of alleged infringement with Mr. McCaleb at his office in Chicago (R. 177). At the time of this meeting, Mr. Marx had not yet "seen any copy that purported to be Kemart copy" (RA. 502). He did not recall what he told Mr. McCaleb about the Kemart process (R. 192). Marx was familiar with both of the Berry patents (R. 191), and believed from a study of them that the Kemart process did infringe his patent (R. 178). On the other hand, the earlier decisions of the Board of Appeals of the Patent Office on June 28, 1945 had found the Kemart process to be quite remote from the Marx patent (R. 251-262).

At the time of this meeting in Chicago, Mr. McCaleb was the president and one of the directors of the defendant and was in charge of the corporate records, formal papers, legal correspondence and patent papers (R. 184, RA. 414-415). William Pensinger

was vice-president in charge of sales efforts and correspondence (R.A. 413; R. 184). Walter S. Marx was the largest stockholder of the company and was in charge of the non-sales efforts of the corporation including scientific research and executive efforts (RA. 411-413).

The record does not disclose that defendant ever obtained an opinion from disinterested outside counsel.

Shortly before noon on October 7, 1948, the opening day of the convention at the Hotel Statler in Cleveland, Walter Marx and William Pensinger, who were representing defendant at the Cleveland convention, beckoned to Frank Adams, who was representing plaintiff at the convention. Adams went across the room, whereupon Marx and Pensinger showed him the McCaleb letter (R. 94, 147, 180).

Marx and Pensinger stated that "they felt that what Kemart was doing in its business was an infringement of their patent which they were licensing under the fluorographic process" (R. 94). Adams responded "I thought it was not. And prior to engaging in the licensing of the Kemart process we had made a thorough study of that matter" (R. 94). The parties did not reconcile their different opinions and Adams left (R. 94).

Frank Adams then discussed the letter with Joe Mertle at luncheon (R. 136-137). Mr. Mertle was a technical adviser for plaintiff (R. 96, 147).

After lunch Mertle approached Marx and asked what the discussion was all about in relation to a patent suit (R. 181). Marx showed Mertle the McCaleb letter (R. 180-181, see also R. 147). At this time, Mr. Pensinger, possibly Mr. Frye, and possibly others were present (R. 181).

Later in the day, Louis Flader said something to the effect, "I hear there is a battle between you people and Kemart. What is it all about?" (R. 181-182). Mr. Marx showed Mr. Flader the McCaleb letter (R. 147-182). The record does not disclose how Mr. Flader learned of the controversy. Mr. Adams testified, with-

out rebuttal, "I am sure I didn't (mention the letter) with Mr Flader" (R. 140).

Mr. Flader was secretary of the Photoengravers Association and the editor of the Photoengravers Bulletin, which is the trade journal which circulates to everyone in the industry (R. 95, 147-148 181-182). Mr. Adams stated that "Mr. Flader, * * * is without doubt, the leading figure in the entire association" (RA. 321)

And at the final argument, defendant conceded:

> "* * * the purpose of the Photoengravers Bulletin is to get news; get the warning out you might say. The people who are going to listen to that are the users, the direct infringers, who should be notified." (R. 243)

Later in the day Mr. Marx showed the McCaleb letter to Mr H. B. Latimer and Mr. Paul Schmidt (R. 147, 182-183). Mr. Latimer and Mr. Schmidt were representatives of the Harold M Pittman Company, which was a distributor of both "Fluorographic" and "Kemart" supplies. Although Mr. Marx testified that Mr. Latimer and Mr. Schmidt approached him, the record does not disclose how they learned of the controversy. Mr. Adams was "quite sure" that he didn't discuss the letter with Mr. Schmidt prior to the time Mr. Schmidt mentioned the letter to Mr. Adams (R. 138).

That evening Mr. Schmidt and Mr. Flader both told Mr. Adams that they had seen the letter (R. 95). With reference to the Schmidt meeting, Mr. Adams testified that "the thing that sticks in my mind importantly is that he came to me and told me he had seen that letter. And that is something that is indelibly ingrained because that was quite a shock" (R. 139). With reference to Mr Flader Mr. Adams testified "I remember seeing him, and I remember him telling me he'd seen the letter from Mr. Marx and asking me what I thought about it" (R. 139).

Shortly after the convention, Mr. Marx instructed patent counsel for defendant to obtain proof of infringement and other information requisite to the filing of a suit of a direct infringement

against some one representative user of the Kemart process (R. 147).

On November 10, 1948, Mr. McCaleb wrote directly to Kemart and referred to a copy of the October 6, 1948 letter handed to Mr. Adams at the Cleveland convention (plaintiff's exhibit 29, RA. 745-747). After quoting this earlier letter, Mr. McCaleb stated:

> "I have now been instructed to institute suit for infringement of the above identified patent against a representative user of the Kemart process, and intend so to do just as soon as certain prerequisite information can be obtained.
>
> "If you defend such action, I shall suggest that your counsel and I stipulate as to the several steps of the Kemart process as practiced by the defendant and the nature of the devices and materials employed by the defendant in performing such process—so that the need for calling the defendant's officers and employees as witnesses may be minimized or eliminated.
>
> "* * * Possibly you may want to have decided in the same case the related question of contributory infringement affecting you. If so, I shall be glad to cooperate with your counsel to that end." (RA. 747)

On November 23, 1948, plaintiff filed its complaint in which it alleged that its process did not infringe the Marx patents (Par. 13, R. 7); that it and its licensees did not propose to violate defendant's rights (Par. 14, R. 7); and that "Defendant has circulated letters and statements that plaintiff's process, the Kemart Process, is an infringement" of the Marx patents to plaintiff's damage (Par. 14, R. 7-8). Plaintiff asked for declaratory judgment of non-infringement, for attorney's fees and for "damages resulting to plaintiff from defendant's wrongful acts and doings" (R. 8-9).

On the same day, plaintiff sent a letter to all of its licensees advising them that the litigation was instituted, "for the purpose of protecting you and ourselves against a series of threats by the representatives and employees of Printing Arts Research Lab-

oratories, Inc. which has expressed its opinion that the use of the Kemart Process in some way infringes the Marx patent" (R. 98-99; plaintiff's exhibit 60, R. 265-267). The letter was reproduced in The Photoengravers Bulletin for December 1948 (defendant's exhibit NN, R. 284-286), in response to a letter from Mr. Adams to Mr. Flader (R. 99, 120). Mr. Adams, without rebuttal, testified that he knew of no untrue statements in the publication (R. 120).

Five months later, The Photoengravers Bulletin for May 1949, republished charges of defendant that plaintiff and its licensees infringed the Marx Patent, and threatened that defendant intended to file a suit against a user of the Kemart Process "for the protection * * * of licensees of the Fluorographic Process, and in its own interests" (plaintiff's exhibit 34, R. 263-265). This publication states, "Kemart Licensees Liable to Lawsuit" (R. 263); that "any maker of half-tone negatives from wash drawings, by the Kemart Process is liable to suit for the direct infringement of the Marx Patent No. 2,191,939 owned by" defendant (R. 264); and that "our competitor * * * has simulated our patented process" (R. 265).

Reaction was prompt.

Columbian Lithographing Company stated "we, * * * cancel our license agreement with you herewith and will ignore all monthly statements rendered by you to us" (Letter dated May 18, 1949, plaintiff's exhibit 62, R. 269-270).

The Eclipse Electrotype & Engraving Company, Inc., stated: "This I cannot understand as we contracted for this in good faith and am now reluctant to use the Kemart Process until some understanding is reached. We have a sizeable investment in this and hope for a speedy settlement of this dispute which has now strangled part of our business and production" (Letter dated May 27, 1949, plaintiff's exhibit 65, R. 272-273).

G. C. Dom Supply Company stated: "The effect has been to create confusion, virtually prevent further Kemart promotion by

Kemart Licensees to their customers, and completely curtail our Kemart agent sales to prospective Kemart Licensees. * * * We urge you to take whatever steps you can to reassure your licensees that they will be protected under the existing patent laws and that the financial damages already done will be righted" (Letter dated May 27, 1949, plaintiff's exhibit 66, R. 273-274).

Advertisers Engraving Company and The Kenand Photo Engraving Co. stated: "* * * we feel a deep distrust and fear of using the Kemart Process. Up until the time we receive from you assurance that we will receive complete protection in the event patent infringement suit should be brought, we will discontinue the use of the Kemart process. Should a suit as heretofore mentioned be successfully pursued against us, it would do us irreparable damage financially and would certainly harm our reputation in the graphic arts industry resulting in a great loss of business to us" (Letter dated June 6, 1949, plaintiff's exhibit 67, R. 275).

Pacific Press Inc., stated: "Will you please return to us our copy of the contract which we signed with your corporation? The question of possible litigation against licensees we want to turn over to our attorney for investigation. * * * The Kemart system is working very nicely, and I hope we will be able to retain it" (Letter dated June 7, 1949, plaintiff's exhibit 68, R. 276).

Nassau Photo-Engraving Co., Inc. stated: "* * * we are still waiting to hear the results of the infringement patent injunction, issued by the courts, against the Kemart association" (Letter dated June 29, 1949, plaintiff's exhibit 69, R. 276-277).

Southwestern Engraving Co., Inc. stated: "* * * when all litigation has been straightened out, we will be in a more receptive mood" (Letter dated June 29, 1949, plaintiff's exhibit 70, R. 277-278).

Production Yearbook stated: "As we are about to start on press with our Ninth Production Yearbook, we have received word

about the patent dispute in which Kemart is involved. * * * It puts us in a not too comfortable position legally. We have taken the matter up with our legal consultants and have been strongly advised to omit the editorial material on Kemart until the situation is clarified" (Letter dated July 18, 1949, plaintiff's exhibit 72, R. 279-280).

The Krus Company stated: "* * * we have no desire to become involved in a three cornered dog fight" (Letter dated July 18, 1949, plaintiff's exhibit 73, R. 280-282).

In June 1950, defendant again publicized the litigation in both The Photoengravers Bulletin and The National Lithographer (plaintiff's exhibit 74, R. 282, see also R. 122). This article referred to the Los Angeles suit "in which the Kemart process of making highlight halftone negatives is charged to infringe the Fluorographic patent" and to a Chicago suit brought against "a representative user of the Kemart process" (R. 282).

Following this, Bee Engraving stated: "The last word I have had from our attorneys is that we had better wait until your suit is settled before doing anything with the Kemart equipment. * * * We had another inquiry the other day from a customer who was interested in using Kemart but we had to tell him that as yet, we cannot use it" (Letter dated September 8, 1950, plaintiff's exhibit 75, R. 283).

Lyle P. Youngdahl, was a salesman for Kemart Corporation (R. 148). Although lacking specific memory for specific times, places and names, he testified generally, that meanwhile the Krus Company was a leader in the Milwaukee area, and that they said that "they were afraid of possible litigation" (R. 152); that Mr. Nelson of the Repritone Company, in Kansas City, in the middle of 1950 said "he would not do business because he was afraid of possible litigation, being sued by the Fluorographic Company" (R. 155-156); that the Bee Engraving said: "they were afraid of possible litigation, and being sued by the Printing Arts Research"

(R. 156); and that there were numerous other instances of which he could not recall specific ones (R. 157).

While speaking generally, Frank P. Adams, in referring to the sales curve of plaintiff stated that "it was diminished, I think, relative to what it would have been in '49. But the actual turndown in net results didn't occur until the middle of 1950" (R. 133).

In the interim and prior to the May 1949 publication in The Photoengravers Bulletin, plaintiff took the discovery deposition of Marx in Santa Barbara commencing April 1, 1949 (RA. 405-409). During the course of examination, Marx admitted that he was only familiar with "some phases of the Kemart process" (RA. 494) and that this familiarity was "obtained from the literature and hearsay" (R.A. 494). Marx stated that to the best of his recollection he had not "seen any copy of what purported to be Kemart copy" (RA. 502). Mr. Goux conceded (RA. 499) "* * * I have never had a piece of paper in my hand that I know to be Kemart paper, nor have I ever had in my hand any paper that I was told was Kemart paper, save and except these two sheets of paper which you say are Kemart paper." He continued (RA. 499) "As to Mr. McCaleb in Chicago, I don't know. He will have to answer for himself. I don't know." Counsel for plaintiff then offered to furnish defendant with anything "you wish us to furnish in the way of Kemart products" (RA. 506).

At this hearing plaintiff struggled for two full days to get answers to the simplest questions, but was blocked by objections (RA. 410, 417, 418, 419, 420, 425, 426, 427, 428, 431, 436, 488, 498, 502). On May 10, 1949, the depositions were resumed following an application to the District Court dated April 11, 1949 to compel answers (RA. 509). However, by stipulation of counsel it was agreed that all questions propounded to the witness would be answered upon resumption of the deposition (RA. 509-510). At this hearing Marx admitted that he had received from the plaintiff certain samples of their products, but that "there has not

been time even to unwrap that shipment" (RA. 529-530). Up to May 10, 1949, Marx admitted "I have made only cursory ventures into the Kemart Process,—not by any means exhaustive" (RA. 531). He stated, "My investigations were merely theoretical and abstract, so to speak, without going into actual camera operation" (RA. 531). At this hearing, Marx in describing the Kemart drawing stated, "the drawing is prepared so as to absorb ultra-violet light in its tone areas while reflecting ultra-violet light from its highlight areas" (RA. 529).* By May 10, 1949, Marx had "superficially examined the Kemart neutralizer and what seemed to be the Kemart paper, and possibly one or two other materials that Kemart makes" (RA. 531-532).

During the pendency of the suit and "particularly since April of 1949," Marx had the opportunity "to study and practice the procedural steps in the accused Kemart process" (RA. 172). He then availed himself of those opportunities and read the Kemart literature (RA. 172). He then practiced the process in accordance with the Kemart literature and materials (RA. 175). And on October 24, 1949, defendant, in its amended and supplemental counterclaim eliminated claims 5 and 7 from the charge of infringement (R. 14-15) and from its earlier all-inclusive counterclaim of March 4, 1949 (R. 13-14). We note that this is subsequent to both the October 7, 1948 and May 1949 all-inclusive publications (defendant's exhibit RR, R. 287-288; and plaintiff's exhibit 34, R. 263-265).

On October 24, 1950 (RA. 95) the case was heard on the first trial. At this hearing Walter S. Marx testified not only as a fact witness, but also as an expert witness. With reference to Mr. Marx's expert qualifications counsel stated, "I concluded that Mr. Marx was good enough as an expert, so I have not called any other expert" (RA. 536). Marx specifically referred to his

---

*It was not until the trial of the case on October 25, 1950, that Marx admitted that "ultra-violet light is absorbed in the highlight areas of the Kemart copy" and is also "absorbed in the tone areas" (RA. 273).

"background of science" (RA. 134). Defendant also introduced in evidence exhibit OO (RA. 162). The second page recites (R. 286-287):

> "Mr. Marx's technical training has been unusually comprehensive. It includes, after specialized training at eastern universities, post graduate work in spectral analysis and physical chemistry."

At the retrial Marx conceded that he did not graduate from any college (R. 196); that he "didn't study spectral analysis anywhere." (R. 196-197), and that he did not study physical chemistry (R. 197).

With respect to his formal education, Marx testified that he:

> "Graduated from high school in 1924 in St. Louis, attended Dartmouth College, University of Pennsylvania, Columbia University, from 1924 to 1929, and about 10 years later studied chemistry at the University of Southern California." (RA. 112).

On cross examination, Marx testified, in describing his courses in study at Dartmouth,

> "I was at Dartmouth for only one year, or less than a year, and studied for a regular Bachelor of Arts degree." (RA. 235)

With respect to the Dartmouth College education, Robert Conant, Registrar of Dartmouth College, wrote:

> "A careful examination of the official records of the college fails to reveal any evidence of matriculation of any person by the name of Walter S. Marx, Jr." (RA. 765)

In response, Marx stated under oath:

> "* * * this affiant did attend Clark's school at Dartmouth College, Hanover, New Hampshire* * *." (RA. 805)

Robert Conant then advised:

> "Clark School is a private secondary school not a college and has no affiliation with Dartmouth College though located in Hanover—". (RA. 771)

At the latest hearing Marx admitted "I was absolutely wrong in my statement that I went to Dartmouth College" (R. 195). In explaining what happened he said: "I went to Clark School, which is a prep school in Hanover, New Hampshire, in the same city where Dartmouth is located. A few of the faculty members of the Clark School were also Dartmouth faculty members and often Dartmouth students would come to Clark School for schooling. As a youngster, I believed it was impressive and in my favor, therefore, to say I went to Dartmouth instead of Clark. And that error has apparently followed me and haunted me down right to this trial. And it was more habit than anything else that caused me to say that." (R. 195-196)

Marx also said that he attended the University of Pennsylvania, and his course of study was "toward a Bachelor of Arts Degree" and included the scientific subject "chemistry" (RA. 235). With respect to this testimony, Robert Bishop of the University of Pennsylvania said:

> "Mr. Marx's program included courses in English literature and composition, French, mathematics, philosophy and history. He failed all of these courses. He was never registered for any work in chemistry or physics, nor indeed for any subjects other than those I have mentioned." (RA. 765-766)

Marx's only response was:

> "This affiant's recollection is that he did take a course in chemistry at the University of Pennsylvania; but, said course in chemistry may have been abandoned by affiant following his hospitalization and before the completion of the course." (RA. 806-807)

In reviewing this evidence, the District Court found "a misrepresentation by defendant's only witness as to his scientific background was a matter of no material consequence either in the prosecution or the defense on the merits of the above entitled action" (Finding No. 11, R. 29).

During the first trial, Marx introduced defendant's exhibit J which was represented as truly representative of half-tone nuisances that confronted newspapers in the years 1936 and 1929 (RA. 133). In identifying these exhibits, Marx at the original trial testified "I dug through files of the Santa Barbara papers and others to find these examples" (R.A. 133). Marx confirmed that that exhibit "truly represents the half-tone nuisances that confronted newspaper printers of those years" (RA. 133). The District Court understood that the exhibit was offered "to afford a graphic illustration of the product achieved in the art at those times" (RA. 133). Counsel for defendant represented "They are typical of things we say inspired our man to what we say was his invention" (RA. 134). If this Court will examine exhibit J, it will perceive that the examples are most atrocious and might well give the impression that the Marx patent was a tremendous advance in the art.

At the retrial in speaking of exhibit J, Marx testified that he didn't know where the exhibit came from, but admitted that "it wasn't me" (R. 193-194). Marx also conceded that "those are not highlighted reproductions" on exhibit J (R. 192). At the retrial on July 24, 1956, Harvey T. Holsapple, a sales manager of plaintiff (R. 164), and a man associated with the photoengraving industry since 1924 (R. 164), testified categorically that exhibit J was not a typical example of the prior art which had been attained in the year 1936, that the exhibit did not truly represent the halftone nuisances that confronted newspaper printers in 1936 and that the art had advanced to the stage where it did produce satisfactory halftone highlighted negatives in 1936 (R. 167). Demonstrative evidence depicting the same thing is found in plaintiff's physical exhibits 59, 79, 80, 81 (R. 159-162).

Upon this record, the District Court found that "defendant did not materially misrepresent the state of the prior art" (Finding No. 12, R. 29).

At the close of the defendant's case, plaintiff moved for judgment of non-infringement in connection with the practice of the Kemart Process as represented by the Berry patent 2,395,985, on grounds that there was "a complete and absolute failure of any proof in connection with that process and method of the Kemart Process" (RA. 313-314). Counsel for defendant responded, "There is not a thing in this record, and properly so, about that Berry patent. I did not even mention it in my case" (RA. 315). This, notwithstanding that the published charges of infringement covered the Kemart process as a whole without differentiation between that of the '985 and '986 patents (defendant's exhibit RR, R. 287; plaintiff's exhibit 34, R. 263; and plaintiff's exhibit 74, R. 282).

Thereafter and following the entry of a decree in favor of defendant on January 31, 1951 (RA. 53-56), the parties had a dispute as to the amount of a supersedeas bond to be provided in order to lift an injunction entered pursuant to the judgment (RC. 43-58). In urging a large bond, Marx proclaimed that defendant had demanded of plaintiff in settlement negotiations "not less than $50,000.00" and that it had "insisted and would insist upon the granting by plaintiff to the defendant corporation of a number of extremely valuable rights and privileges" (RC. 53). Marx further said that "if plaintiff can only be saved from bankruptcy at the loss and expense of the defendant corporation and by permitting plaintiff to continue to infringe the aforementioned Marx patent, plaintiff were best straightway and without further ado precluded from any further infringement of the aforementioned Marx patent and forthwith forced into bankruptcy * * *" (RC. 55).

Upon reviewing this evidence, the District Court found that "defendant did not determine the amount of the supersedeas bond or the form" such determination having been made by the Court (Finding No. 13, R. 29).

Finally, during the pendency of the appeal, defendant even opposed a modification of the injunction which would have permitted

a change to clearly non-infringing procedures. On June 5, 1952, plaintiff moved to modify the injunction to permit plaintiff to substitute either of two blue light camera lamps for the Kemart purple camera lamps as a source of light during the dot eliminating exposure (RB. 3-7). On July 10, 1952 Marx executed an affidavit in opposition to the modification of the injunction and based largely on scientific tests and opinions (RB. 18-38). On September 29, 1952, the District Court denied plaintiff's motion (RB. 39). Upon this record, the District Court concluded that "Defendant did not determine * * * the form of the injunction restraining plaintiff following the trial" holding that this determination was "made by the Court" (Finding 13, R. 29).

With this review of the questions on appeal, the procedure below, and the evidence, we now point to the errors which appellant contends the District Court made.

## SPECIFICATION OF ERRORS

1. The District Court erred in determining that the law of Ohio accords a patentee the qualified privilege to publish a charge of patent infringement to other interested persons, even though the charge later proves to be false, if the patentee reasonably and in good faith believes the charge of infringement to be true and was not prompted by malice but acted solely in defense of his patent; that such a publication is qualifiedly privileged, and that defendant's good faith and absence of malice constitutes a complete defense to plaintiff's claim of unfair competition or trade libel (Conclusion 6, R. 30-31).

2. The District Court erred in failing to find that the Ohio case law, the Ohio statutes, the Ohio Constitution, and the Treaty of Paris all make actionable the publication of false charges in the conduct of trade which are of a nature to discredit the establishment, the goods or the services of a competitor without regard to proof of actual malice.

3. The District Court erred in determining that the defendant published the charges in good faith and without malice, that it reasonably believed that the patent in suit was infringed by the process of plaintiff, and that this belief was based upon the opinion of patent counsel and not upon careless ascertainment of plaintiff's rights (Findings No. 1, 2, 6 and 8, R. 27-29).

4. The District Court erred in determining that plaintiff "published the charge of infringement in Ohio" and that defendant's publications were published "in response to plaintiff's publication in Ohio" and in "response to plaintiff's prior publication in a trade magazine" (Findings No. 4, 5 and 7, R. 28).

5. The District Court erred in determining that the defendant's misrepresentations at the original trial were not material (Findings No. 11 and 12, R. 29).

6. The District Court erred in finding that the instant case was not one warranting an allowance of attorneys fees (Findings No. 14 and 15, R. 29-30).

7. The District Court erred in adjudging that plaintiff shall take nothing by its claim for damages and that said claim for damages be dismissed and in failing to award plaintiff its actual damages, namely, its business losses resulting from the publication, and the expenses involved in clearing up of the infringement charges (R. 32).

8. The District Court erred in adjudging that plaintiff shall not receive any attorneys' fees and in failing to award attorneys fees to plaintiff under the patent statutes and under the Ohio law (R. 32).

## ARGUMENT

**Preface.**

Upon the foregoing record, the trial court concluded that the Ohio law was applicable under California conflict of laws rules (Conclusions of Law 2 and 3, R. 30). This conclusion is soundly

supported by *American Well Works v. Layne* (1916), 241 U.S. 257 where the Court, in an opinion by Mr. Justice Holmes said, page 260:

> "* * * But whether it (the publication of statements to various persons that the plaintiff was infringing the defendant's patent and that the defendant would sue both seller and buyer if the plaintiff's pump was used) is a wrong or not depends upon the law of the State where the act is done, not upon the patent law, and therefore the suit arises under the law of the State."

In reviewing the Ohio law, the District Court concluded that Ohio law provides that publication of a false charge of patent infringement is a tort in the nature of a trade libel or unfair competition, since such charge is likely to prevent others from engaging in business dealings with the alleged infringer, and that the injured party may recover its actual damages (Finding No. 6, R. 30), "namely, his business losses resulting from the publication and the expenses involved in clearing up the infringement charge" (Memorandum, Par. (6), R. 21). The District Court recognized that such charges are "actionable per se" (Memorandum Par. (5), R. 21). These conclusions of the District Court are soundly supported by *Watson v. Trask* (1834), 6 Ohio 532; *Union Central Life Ins. Co. v. Mutual Benefit Life Ins. Co.* (1877), 5 Ohio Dec. Reprint 521, 523; *Finney v. Smith* (1877), 31 Ohio State 529, 532; *Kahn v. Cincinnati Times Star* (1890), 10 Ohio Dec. 599, 620, affirmed without report 52 Ohio State 662; *Cincinnati St. Ry. Co. v. Cincinnati Daily Tribune Co.* (1900), 10 Ohio Dec. 281, 282; and *Henry Gehring Co. v. McCue* (1926), 23 Ohio App. 281, 154 N.E. 171.

Nonetheless, the District Court found in the law of Ohio the qualified privilege of a patentee to publish a charge of patent infringement to other interested persons, even though the charge later proves to be false, if the patentee reasonably and in good faith believes the infringement charge to be true and was not

prompted by malice but acted solely in defense of his patent (Memorandum, Par. (7), R. 21; Conclusion 6, R. 30-31).

The District Court entered findings of fact, to be discussed later in the argument, directed toward the issues of good faith and absence of malice and found in defendant's favor upon these issues (R. 27-29).

The District Court also found that the Court in exceptional patent cases may award reasonable attorney's fees to the prevailing party; concluded that this was not an exceptional case, and decreed that attorney's fees should not be awarded herein (R. 29-31).

**Outline of Argument.**

Appellant shows that under the law of Ohio, good faith and advice of counsel are not defenses to a claim for damages resulting from the publication of false charges of patent infringement. The defense is not supported by the authorities upon which the District Court relied. The defense was overruled in *McCue v. Wells* (1929), 121 Ohio State 53, 166 N.E. 892; and in *International Indus. & Develop. v. Farbach Chem. Co.* (6th Cir. 1957), 241 F.2d 246. The defense further is contrary to a continuous line of Ohio cases dating back to *Watson v. Trask* (1834), 6 Ohio 532, and it is in conflict with the Ohio statutes, the Ohio Constitution and the Treaty of Paris. Authorities upon which the defense has been based in other jurisdictions should not be engrafted upon the Ohio law because they have their historical foundation upon early English authority overruled by the English legislature and are contrary to better reasoned authorities from other jurisdictions.

Even if good faith and advice of counsel were a defense to such a defamation, defendant has not proved the elements of the defense. Under the rule of Ohio, the defense of advice of counsel, where otherwise applicable, requires advice of disinterested counsel, proof of full factual disclosure, proof of diligence in ascertaining the true facts and proof of reliance upon the advice. All of

these elements are lacking in the case at bar. Neither can the defense be premised upon plaintiff's publications directed to the controversy between the parties. Under the law of Ohio, and analogous authorities from other jurisdictions, plaintiff's publications are no justification for the defendant's publications.

With regard to the issue of attorneys' fees, the record shows that this is an exceptional case warranting an award of attorneys' fees under U. S. Code, Title 35, Section 285; that the failure to award attorneys' fees under the statute is contrary to sound federal authorities and is therefore an abuse of discretion; and that, independently of statute, plaintiff is entitled, as a part of its damages under the Ohio law, to its attorneys' fees for clearing up the defamatory charges of patent infringement.

**The District Court Erred as a Matter of Law on Issue of Malice and Good Faith.**

Appellant submits that the District Court erred, as a matter of law, in concluding that "* * * the law of Ohio accords a patentee the qualified privilege to publish a charge of patent infringement to other interested persons, even though the charge later proves to be false, if the patentee reasonably and in good faith believes the charge to be true and was not prompted by malice, but acted solely in defense of his patent" (Memorandum Par. (7), R. 22; Cf. Conclusion No. 6, R. 30-31).

The District Court relied upon one Ohio case, *Henry Gehring Co. v. McCue,* 23 Ohio App. 281, 154 N.E. 171, 172 (1926); upon three 6th Circuit decisions; and upon authority from other jurisdictions remote from both Ohio and the Sixth Circuit (R. 22-23). Plaintiff submits that the cited decisions do not establish as the law of Ohio the qualified privilege found by the District Court.

The *McCue* case was before the Ohio reviewing courts on two separate occasions: *Henry Gehring Co. v. McCue* (1926), 23 Ohio App. 281, 154 N.E. 171, 172, and *McCue v. Wells* (1929), 121 Ohio St. 53, 166 N.E. 892. The first appeal was plaintiff's appeal

from a judgment sustaining a demurrer to a petition in equity. The second appeal was defendant's appeal from a judgment in plaintiff's favor upon a jury verdict. The petition, the subsequent pleadings and portions of the brief on behalf of defendant, setting forth his contentions on appeal are included in the instant record (R. 296-315).

The District Court cited the decision on the first *McCue* appeal for the proposition that the patentee has a qualified privilege to publish a false charge of patent infringement if this is not done with malice and if he believes in good faith the charge to be true (R. 22). It is submitted that the first *McCue* appeal does not stand for this proposition.

Two questions only are involved in the first appeal reported in *Henry Gehring Co. v. McCue* (1926), 23 Ohio App. 281, 154 N.E. 171. They are: (1) Did the trial court have jurisdiction over the subject matter of the action? and (2) Did the petition state a cause of action?

The Ohio Court of Appeals easily disposed of the first question. It held that the trial court had jurisdiction in the matter because the questions of patent infringement raised by the pleadings were only collateral to the damage issues presented in the case. In this regard, the Ohio opinion is on all fours with *American Well Works v. Layne* (1916), 241 U.S. 257, 60 L.ed. 987.

The Ohio Court of Appeals also held that the complaint in *McCue* stated a cause of action. Plaintiff's petition in *McCue* complained of two types of actionable wrongs (R. 296-298):

1. "Now the plaintiff says that heretofore, and particularly during the month of September, 1924, but also before and after said date, the defendant wrote and sent through the United States Mails to various of the customers of the plaintiff communications reading as follows: [Then follows the text of a letter by the defendant alleging patent infringement, which showed on the face of the complaint that defendant had been 'advised by Patent Lawyers of New York and two firms in Cleveland']"

2. "Now the plaintiff says that the defendant, for the purpose of harassing and annoying the plaintiff and embarrassing it in and about the sales of its goods, wares and merchandise, filed a suit in the United States District Court for the Northern District of Ohio, Eastern Division, against this plaintiff, same being Case No. 1279 upon the equity docket of said court, and falsely alleging a patent infringement * * *"

3. "thereupon and thereafter the said defendant proceeded to circularize the customers of the plaintiff with highly improper and damaging communications of the kind, character and nature set forth herein, and communicated by telephone, by word of mouth and otherwise with the customers of the plaintiff, threatening them with litigation and falsely accusing the plaintiff of infringing the letters patent of defendant * * *"

4. "through and by such methods of unfair competition the defendant caused a large portion of the trade of the plaintiff to be interrupted, halted and stopped, and prevented customers and prospective customers of the plaintiff from making purchases, and caused an injury and damage to the plaintiff in the sum of Twenty-five Thousand Dollars ($25,000.00)".

The complaint thus emphasizes the limited holding of the Ohio Court of Appeals: "There are numerous cases of successful recoveries because of malicious acts by way of litigation in the courts, where it appears that the litigation was not founded upon good faith, but was instituted with the intent and purpose of harassing and injuring a rival producing and selling the same commodity." This language by necessary context was intended merely to show an analogy between the allegations pleaded in item 2 above and a claim for malicious prosecution. It does not imply that malicious acts are essential.

The other portion of the court's opinion wherein it is stated that: "Allegations are made that the conduct of the defendant

had no warrant of proof, but was based upon false statements respecting the patent" is the only portion which refers to defamation, i.e., items 1 and 3 above. It does not imply that the statements respecting the patent must be both false and malicious.

The record and the Ohio Court of Appeals' opinion in the first *McCue* appeal therefore disclose that: (1) plaintiff's petition in that case did not allege malice or the absence of good faith in making the false infringement publication; (2) plaintiff's petition showed on its face that defendant acted upon advice of counsel; and (3) the court held that the petition stated facts sufficient to constitute a cause of action. The Ohio court thus held by necessary implication that malice and absence of good faith are not part of the plaintiff's cause of action and that advice of counsel is not a defense to the action. If the law were otherwise then the demurrer should have been sustained as in *Bueher v. Life Ins. Co.* (1931), 123 Ohio St. 264; 175 N.E. 25, official syllabus.

After the remittitur came down upon the first appeal, the case was tried on the merits. Judgment upon a jury verdict was entered for plaintiff. Defendant prosecuted a writ of error in the Ohio Court of Appeals. That court affirmed the judgment of the trial court. Defendant then prosecuted a writ of error to the Ohio Supreme Court (*McCue v. Wells* (1929), 121 Ohio St. 53, 166 N.E. 892).

The supplemental answer before the Supreme Court in *McCue,* with reference to the defense of truth and good faith stated (R. 300):

> "* * * Defendant further says that the statements contained in said letter and letters, are true and that said letters were written and sent in good faith and upon advice of competent counsel skilled in such matters."

Defendant in its brief to the Ohio Supreme Court contended that for plaintiff to prevail it was necessary for plaintiff to show the falsity of the words published (R. 301, 310); that it was

necessary to show malice (R. 301, 310-311) and that it was necessary to show special damages (R. 301, 311). After legal argument, the defendant showed the Court (R. 313):

> "* * * There was not a scintilla of evidence showing, or tending to show any malice on the part of the defendant and there was no evidence introduced showing special damages. As these elements were an essential part of the plaintiff's case, the burden being upon the plaintiff to introduce evidence on these points, the court should have sustained the Motion of the defendant to direct a verdict at the close of plaintiff's case."

Thus, in *McCue,* the Supreme Court on the second appeal had before it for consideration both the defense of truth and the defense of good faith belief. The Supreme Court cast the defense of good faith aside completely and ignored it in its decision. The Supreme Court thus emphasized that truth and truth alone is a defense to a publication of a charge of infringement in Ohio. In its decision the court stated:

> "* * * McCue's answer did deny the allegation of the Gehring Company's petition that the charge of infringement embodied in the letters of Sepember, 1924 was false * * * his answer * * * denied that the charge of infringement made by him while the Gehring Company was still manufacturing under the 'Polar Spray' patent was false. *He was entitled to go to the jury upon that issue.*" (Emphasis ours.)

And in its judgment, the Supreme Court specifically reversed the judgment of the Court of Appeals "for the reasons stated in the opinion filed herein" (R. 314).

Thus, the sole basis for reversal was the holding that defendant was entitled to go to the jury upon the issue of whether the charge of patent infringement was false. As indicated, the argument concerning the requirement of malice and good faith was made to the Ohio Supreme Court. In reversing the improper instruction, the Ohio Supreme Court did not adopt defendant's

further contention that it was entitled to have the cases decided upon the less vigorous rule of good faith and the absence of malice. The opinion thus squarely holds that good faith is not available as a defense in an action of this type.

The Ohio law confirms our contention that *McCue* directly overrules *sub silento* the defense that defendant published the letters and sent them in good faith and upon advice of competent counsel skilled in such matters.

*Bayes v. Midland Casualty Co.* (1915), 92 Ohio St. 303, 110 N.E. 751, 752, states:

> "* * * It is to be presumed that all the assignments of the petition in error in the present case were passed upon and all assignments were held to be not well taken, except the one expressly stated in the entry as the basis of the judgment of reversal. *Weaver v. Columbia, Shawnee & Hocking Ry. Co.,* 76 Ohio St. 164, 81 N.E. 180."

*Gamble v. Akron, B. & C. R. Co.* (1900), 63 Ohio St. 352, 59 N.E. 99, 100; *Rheinstron v. Steiner* (1904), 69 Ohio State 452, 69 N.E. 745; and *Bechtol v. Ewing* (1913), 89 Ohio State 53, 105 N.E. 72, are in accord.

The same rule of interpretation is applied in *Bingham v. United States* (1935), 296 U.S. 211, 218-219, abstracted in official headnote 4 as follows:

> "Matters pertinent to an issue before the Court and which were clearly presented to it, are to be taken as covered by the decision though not mentioned in the opinion."

It is thus implicit that the second *McCue* case, which is the latest expression of the Ohio courts upon the subject, stands for the proposition that "good faith" and "advice of counsel" are not defenses in Ohio and that the only defense to a published patent libel charge is that of truth.

Appellant submits and urges that *Henry Gehring Co. v. McCue* (1926), 23 Ohio App. 281, 154 N.E. 171 and *McCue v. Wells*

(1929), 121 Ohio St. 53, 166 N.E. 892, when considered in the light of the pleadings on review, the specification of errors and the contentions of the parties establish the law of Ohio to be as follows:

1. Where a plaintiff seeks damages arising from the publication of a false charge of infringement, existence of malice and absence of good faith are not essential elements of plaintiff's case.

2. Proof of the truth of the matter charged as defamatory is a complete defense.

3. The fact that the letters which charged infringement were written and sent in good faith and upon advice of competent counsel skilled in such matters is not a defense to plaintiff's claim for damages.

Appellant respectfully submits, therefore, that the District Court erred in concluding that the *McCue* case holds the presence of the qualified privilege as so found by the District Court.

The next case upon which the District Court relies, *Oil Conservation Engineering Co. v. Brooks Engineering Co.* (6th Cir. 1931), 52 F.2d 783, likewise does not support the stated conclusion. That case did not involve any kind of a defamation, for even though the two patents in suit were later found to be invalid, the court did point out that, "they were both infringed by plaintiff" (page 786). Hence, there was no false statement as to the fact of infringement as there has been found in the case at bar. Moreover, *Oil Conservation* does not involve the right of a plaintiff to damages, but it discusses merely the right of a person to obtain an injunction against the publication of charges of patent infringement. At page 785-786 the Court said:

> "A court of equity has no jurisdiction to enjoin a mere slander or libel. * * * It is only when such slanders are both in bad faith—that is malicious—and are working destruction of property or property rights, that equity will interfere; otherwise, the remedy is at law."

Thus, in *Oil Conservation* there is specific recognition that where the slanders are neither in bad faith nor malicious that there is a remedy at law, even though there is not one for injunctive relief.

The third case upon which the District Court relies is *Alliance Securities Co. v. De Vilbiss Mfg. Co.* (6th Cir. 1930), 41 F.2d 668 (cited R. 22). *Alliance Securities* does not involve a false charge of any kind but involves only threats. One publication was made in San Francisco, Detroit and elsewhere in the country. As to this, "it is not shown that they told a reporter anything untrue or beyond a patentee's permissible optimism" (p. 671). The other publication was in Chicago and it, without mentioning defendant by name said, "Any and all pressure paint containers * * * which have one or two regulating valves and two lines of hose to air guns are an infringement, etc." (p. 671). There is nothing in the decision to indicate that the patentee ever defamed defendant in any way, nor is there anything to indicate that any charge was ever published in Ohio. The case is inapposite therefore in reaching any conclusion as to the law of libel and slander or as to the Ohio law on the publication of a false imputation of patent infringement.

The limitation which we have found in *Oil Conservation* and *Alliance Securities* has been given judicial recognition in *American Ball Co. v. Federal Cartridge Corp.* (8th Cir. 1934), 70 F.2d 579*. In that case the court, after discussing both *Alliance Securities* and *Oil Conservation,* said, page 582:

> "* * * So long as the patentee acts fairly and honestly in notifying such purchasers of the actual situation as he honestly conceives it to be, a court of equity should not intervene until the verity of his position has been judicially passed upon. *It may well be that if the patentee should fail to estab-*

---

*This Court approved *American Ball in Celite Corporation v. Dicalite Co.* (9th Cir. 1938), 96 F.2d 242, at p. 250; and in *Metro-Goldwyn-Mayer Corporation v. Fear* (9th Cir. 1939), 104 F.2d 892.

*lish his rights as claimed by him that he might be subject to an action for damages (because of such false, though honestly believed, statements) on the part of the one mistakenly prosecuted for infringement* and might, after his accusation of infringement has been judicially determined to be unfounded, be enjoined from further notices, yet so long as he honestly believes his undetermined rights are being invaded there is no reason why he should not be free from judicial prevention in a fair statement of his honestly held position and of any relation thereto of the recipient of such statement in a bona fide effort to protect his position." (Emphasis added.)

The fourth case upon which the District Court relies is *International Indus. & Develop. v. Farbach Chem. Co.* (S.D. Ohio 1956), 145 F.Supp. 34; affirmed (6 Cir. 1957) 241 F.2d 246 (R. 22, 68). In that case, the District Court and the Court of Appeals both found for the putative infringer. In that case, as in the case at bar, the patentee did not make any factual investigation of the putative infringer's product, but relied upon an opinion of counsel. The letter of the attorney falsely charged patent infringement. The decision by necessary implication, eliminates the defense of privilege in the publication of a false charge of infringement. In that case, plaintiff mailed to the trade 8,000 copies of a letter of its patent attorney inferentially charging the defendant's product with infringement, whereas the defendant's product did not, in fact, infringe plaintiff's patent. The trial court awarded defendant judgment for $100,000 damages and for $15,000 attorneys' fees.

The Court of Appeals, in a two to one decision, affirmed the decision of the District Court and held that implied malice in law was sufficient to support a judgment for plaintiff.

Circuit Judge Stewart, dissenting from the majority opinion, was of the view that the record had to contain "evidence" to support the conclusion that the letter was sent maliciously or in bad faith, citing:

*Kaplan v. Helenhart Novelty Corp.*, 182 F.2d 311, 313-314 (2 Cir. 1950);

*Alliance Securities Co. v. De Vilbiss Mfg. Co.,* 41 F.2d 668, 670 (6 Cir. 1930); and

*Coats Loaders & Stackers, Inc. v. Henderson,* 233 F.2d 915, 926 (6 Cir. 1956).

The *Coats* case, upon which Circuit Judge Stewart relied in part, relied in turn upon *Oil Conservation Engineering Co. v. Brooks Engineering Co.* (6th Cir. 1931), 52 F.2d 783, 785 (233 F.2d 926), upon which the District Court relied in part in the case at bar. Thus, there was squarely presented to the Court of Appeals for the Sixth Circuit the question as to whether the same Sixth Circuit authorities as those upon which the District Court relied in this case are applicable to a claim for damages arising from the publication of a false charge of patent infringement.

The majority of the court, notwithstanding that these authorities had been pointed out to it, did not dispute the view of dissenting Judge Stewart that he was "unable to find in the record sufficient evidence to support the conclusion that the letter was sent maliciously or in bad faith" in the light of the cited cases, but ruled that "implied malice in law" was sufficient. The opinion of the Court specifically stated:

> "* * * Moreover, the record supports the conclusion of the trial court that the issuance of the notice of infringement was done in implied malice in law,* if not in actual malice, and in bad faith constituting unfair competition."

The patentee filed a petition for rehearing (R. 62-67) and again pressed the point that "a mere notice of infringement is not actionable unless it is sent out maliciously or in bad faith" (R. 64). This petition for rehearing was denied on April 18, 1957 (R. 67).

---

*This is the rule of *Watson v. Trask* (1834), 6 Ohio 532, 533: "Where the words are false, the law infers malice;" and *Racine Paper Goods Co. v. Dittgen* (7th Cir. 1909), 171 Fed. 631, 635; "If there was no infringement, the maliciousness would be undoubted."

Plaintiff submits therefore that the conclusion permitting recovery where there is implied malice in law, even if there is not actual malice and bad faith constituting unfair competition, clearly establishes beyond reasonable doubt either (1) the fact that the earlier Sixth Circuit decisions were not intended to announce the principle that the "publication" of a "false" charge of infringement was privileged, or (2) the fact that the holdings of the prior decisions are limited to the extent that they might otherwise be thought so to hold.

In the *first* place, plaintiff submits that any statement contained in *Oil Conservation Engineering Co. v. Brooks Engineering Co.* (6th Cir. 1931), 52 F.2d 783, 785-787; *Alliance Securities Co. v. De Vilbiss Mfg. Co.*, (6 Cir., 1930), 41 F.2d 668, 670-671; and *International Industries & Develop., Inc. v. Farbach Chemical Co.*, (S.D. Ohio, 1956) 145 F. Supp. 34 (and forming a basis for the conclusions of the District Court that implied malice in law is insufficient as a basis for recovery in the absence of actual malice) must be deemed to have been overruled by this recent Sixth Circuit decision.

> "* * * Even if it were true that the decision referred to was not in harmony with some of the previous decisions, we had supposed that a later decision in conflict with prior ones had the effect to overrule them, whether mentioned and commented on or not." *Asher v. Texas* (1888), 128 U.S. 129, 131-132, 32 L.Ed. 368, 369.
>
> "It is an established rule of law that a later decision overrules prior decisions which conflict with it, whether such prior decisions are mentioned and commented upon or not." *People v. Bateman* (1943), 57 Cal. App. 2d 585, 587; 135 P.2d 192, 194.

In the *second* place, the conclusion of the Court of Appeals in permitting recovery upon "implied malice in law" is a direct holding that the publication of a false notice of infringement, even where the notice is the opinion of patent counsel, is not qualifiedly

privileged. This is true because the concepts of "implied malice in law" and "qualified privilege" are mutually exclusive. If the publication is privileged, then express or actual malice and bad faith are necessary because a right of action may not be maintained where only malice in law is present.

The rule is announced in *Heimlich v. Dispatch Prtg. Co.* (1916), 18 Ohio N.P. (N.S.) 505. In that case, the court held that the statutes "were passed to destroy or take away the right of action where only presumptive malice appeared or malice in law was present". The court also held, page 518, that where the publication is privileged, a party "cannot recover * * * unless the evidence offered shows express malice * * *."

Since the instant publication is not even declared privileged by statute, a grant of relief in the *International* case is *a fortiori* a declaration that the publication of a false charge of infringement is not a privileged communication.

Appellant submits, therefore, that the *Farbach* decision makes clear that if the publication of a false charge of patent infringement was ever deemed privileged by the Federal Courts in the Sixth Circuit, that the rule of decision is now overruled, or otherwise vacated.

The remaining authorities which the District Court cited as being in accord (R. 22-23) are distinguishable in that none even purports to announce the law of Ohio. Moreover, at least three of them, i.e., *Metro-Goldwyn-Mayer Corp. v. Fear* (9th Cir. 1939) 104 F.2d 892, *American Ball Co. v. Federal Cartridge Corp.* (8th Cir. 1934) 70 F.2d 579; and *Emack v. Kane* (N.D. Ill. 1888) 34 Fed. 46, would support a judgment for plaintiff in this case and not one for defendant.

In summation on this section of the brief, it is submitted that the authorities upon which the District Court relied, do not establish that the Ohio law makes "absence of malice" and "good faith" a complete defense to an action for damages arising by virtue of the publication of false charges of patent infringement.

**The Ohio Case Law Negates the Defense of Good Faith.**

The starting point of our investigation is a case of first impression in the entire United States upon the question at bar. *Watson v. Trask* (1834), 6 Ohio 532 holds in effect that anything which tends to prejudice a person in his trade or business constitutes actionable defamation and that the person injured may recover without proof of malice or special damage.

At page 533, the court set forth the following rule:

> "* * * Where the words are false, the law infers malice, and where their natural tendency is to injure, the law presumes damages."

The court brought a charge of patent infringement within the foregoing definition by stating, page 533:

> "* * * The publication is declared to be of the plaintiff in his business of maker and vendor of bark mills. It imputes to him the infraction of another's patent. This, if true, would subject him, and those purchasing and using his mills, to prosecution. Nothing could have a more direct tendency to the entire destruction of his business."

The official syllabus* of *Watson v. Trask* states:

> "It is a libel to charge a man with infracting a regularly granted patent for bark mills."

Counsel notes particularly that "issue was joined on a plea of not guilty, with a notice in justification that the publication is true" (6 Ohio 532). There is implicit, in such a notice in justification, good faith and belief that the publication is true for otherwise the pleading could not have been made. The court, in sustaining the verdict of the jury, completely ignored the present "good faith" defense.

---

*Under the Ohio rule, the official syllabus is considered to be binding law. See *Wooster Rubber Co. v. Commissioner of Internal Revenue* (6th Cir. 1951), 189 F.2d 878, 885; and *Westropp v. E. W. Scripps Co.* (1947), 148 Ohio State 365, 74 N.E. 2d 340, 345.

The rule of *Watson v. Trask,* both with and without reference to *Watson* and both with and without reference to patent defamation is applied with consistent regularity. In *Union Central Life Ins. Co. v. Mutual Benefit Life Ins. Co. et al.* (1877) 6 Am. Law. Rec. 382, 5 Ohio Dec. Rep. 521, 2 Week. L. Bull. 269, the court held:

> "* * * If it (the publication) refers to the business and trade of the party, and the necessary and proximate result is to subject him in his business, name or reputation, to pecuniary loss, such publication is in law *prima facie* libelous." (5 Ohio Dec. Rep. 532).

In *Mason v. Stacey & Carrol* (1879), 7 Ohio Dec. Rep. 567, 3 Week. L. Bull. 1100 plaintiff claimed that a false charge of patent infringement was a slander of title. The court denied relief only because the action was abated by the bankruptcy of one of the defendants. There is no reference in the opinion that belief in good faith is a defense.

*Joseph v. Cristy* (1882), 8 Ohio Dec. Rep. 476, 8 Week. L. Bull. 190 involves a false charge of patent infringement. A libel action was dismissed but only because the plaintiff was not named as the party defamed. The case does not intimate that good faith is a defense.

In *Dopp v. Doll* (1885), 9 Ohio Dec. Rep. 428, 13 Week. L. Bull. 335 the court treated a false charge of patent infringement as a libel and held that it had no equitable jurisdiction to enjoin the defamation. There is no ambiguity in the observation of the court in stating 9 Ohio Dec. Rep., page 430:

> "* * * There is an adequate remedy at law in a suit for damages for the alleged slander or libel."

*Kahn v. Cincinnati Times-Star* (1890), 10 Ohio Dec. 599, affm'd (1895) 52 Ohio St. 662, 44 N.E. 1132 announces the rules:

> "* * * it is a presumption of law that anything stated in such publication which is derogatory to the business reputation

and trade of the plaintiff as alleged is false, and that the defendant in publishing the same intended to cause whatever injury naturally would and did result from such publication. (10 Ohio Dec. 604)

* * * * * * *

"* * * unless the article published in its entirety was true in fact, the law implies malice if it should be found that the article in question is libelous * * *." (10 Ohio Dec. 607)

*Cincinnati St. Ry. Co. v. Cincinnati Daily Tribune Co.* (Com. Pleas, 1900), 10 O.D. 281, 282, quoted *Watson* as follows:

"The allegations of the petition are that the plaintiff has been damaged in its credit, reputation and conduct of its business. If the words are false, the law would imply malice and would presume such damages as ensued as a necessary consequence. *Watson v. Trask, supra.*"

*Peer v. Hoiles* (1925), 3 Ohio L. Abs. 653, 654:

"Where the words are false, the law infers malice; and where their natural tendency is to injure, the law presumes damages. 6 Ohio 532."

The cases of *Henry Gehring v. McCue* (1926), 23 Ohio App. 281, 154 N.E. 171 and *McCue v. Wells* (1929), 121 Ohio State 53, 166 N.E. 892, discussed above in this brief pages 25 to 31 directly negate the good faith defense in the case of false charges of patent infringement.

As recently as *Mulcahy v. Deitrick* (1931) 39 Ohio App. 65, 176 N.E. 481, 482, the Court said:

"Inasmuch as the words alleged to have been spoken are clearly actionable per se, it follows as a matter of law that malice is presumed. 17 Ruling Case Law, p. 322, § 65. Plaintiff, therefore, was not required to prove malice, and the trial court in so charging put upon him a burden unwarranted in law, which was prejudiced to him and hence constitutes reversible error."

And if there be any doubt still remaining as to the limited place of qualified privilege in Ohio, we need look only to *Westropp v. E. W. Scripps Co.* (1947), 148 Ohio St. 365, 74 N.E. 2d 340, to observe that the doctrine does not apply to situations involving libel *per se*. During the trial of the case, the trial court gave instructions to the jury quite similar in scope to the District Court's Determination (7) upon the privilege issue, although the claimed privilege involved a different type of defamation than the instant defamation. Upon appeal the Supreme Court reversed the trial court. During the trial plaintiff asked the trial court to grant an instruction:

> "I charge you as a matter of law that the publication of the editorial and pictures which is the subject matter of the plaintiff's complaint and which is set forth in her petition, was defamatory and libelous per se." (p. 344)

The trial court refused this instruction and instead instructed the jury as follows:

> "* * * if the publication of this editorial, which publication is admitted, was false, was actuated by malice, with intent to injure this plaintiff in her profession or calling and did injure her, and if she has proven these necessary elements to you by a preponderance of the evidence, then she is entitled to a verdict at your hands.
>
> "If she has not proven to you these necessary elements you would not consider the case further but would return a verdict for the defendants."

Plaintiff lost and appealed. The Court found reversible error, stating that it was error (1) to refuse the requested instructions, and (2) to grant the instruction given.

In the course of its decision, the Court said (p. 346):

> "It is well settled as so concisely stated in 1 Cooley on Torts 519, Sec. 150: 'Where the published words are actionable per se plaintiff, in order to make out a prima facie case, need not prove actual malice, since the law will imply malice of the character necessary to support a judgment.'"

**The Ohio Statutes Negate the Defense of Good Faith.**

The Ohio statutes clearly negate that any of the foregoing authorities should be construed as including in the law of libel and slander of that state the qualified privilege here applied. The Ohio Revised Code, Section 2901.37 states:

> "No person shall write, print, or publish a false or malicious libel of, or concerning, another * * *."

The alternative use of words "false or malicious" in the foregoing statute is a clear statement that the prohibitions apply alternatively rather than cumulatively.

And in Ohio, the defenses in cases of libel and slander are set forth positively in the statutes of that state. The statutory provisions are as follows:

> "§ 2739.02 Defenses in actions for libel or slander. (GC § 11342)
>
> "In an action for libel or slander, the defendant may allege and prove the truth of the matter charged as defamatory. Proof of the truth thereof shall be a complete defense. In all such actions any mitigating circumstances may be proved to reduce damages."
>
> "§ 2317.04 Impartial report of proceedings privileged. (GC § 11343-1)
>
> "The publication of a fair and impartial report of the proceedings before state or municipal legislative bodies, or before state or municipal executive bodies, boards, or officers, or the whole or a fair synopsis of any bill, ordinance, report, resolution, bulletin, notice, petition, or other document presented, filed, or issued in any proceeding before such legislature or executive body, board, or officer, shall be privileged, unless it is proved that such publication was made maliciously."
>
> "§ 2317.05 Impartial report of indictment, warrant, affidavit, or arrest privileged. (GC § 11343-2)
>
> "The publication of a fair and impartial report of the return of any indictment, the issuing of any warrant, the

arrest of any person accused of crime, or the filing of any affidavit, pleading, or other document in any criminal or civil cause in any court of competent jurisdiction, or of a fair and impartial report of the contents thereof, is privileged, unless it is proved that the same was published maliciously, or that the defendant has refused or neglected to publish in the same manner in which the publication complained of appeared, a reasonable written explanation or contradiction thereof by the plaintiff, or that the publisher has refused, upon request of the plaintiff, to publish the subsequent determination of such suit or action. This section and section 2317.04 of the Revised Code do not authorize the publications of blasphemous or indecent matter."

The above sections show that proof of the truth of the matter charged as defamatory shall be a complete defense; that any mitigating circumstances may be proved to reduce damages; and that the provisions as to privilege do not explicitly or by implication render privileged either a false charge of patent infringement or any other kind of a trade libel.

The courts of Ohio do not extend the doctrine of privilege beyond the statute to contemplate any form of common law privilege. This is made clear from several authorities.

In *Westlake v. Westlake* (1878), 34 Ohio St. 621, the court discussed the "per se" doctrine of Ohio and in the course of its discussion approved the rule of *Watson v. Trask.*

The court said, page 631:

"In this respect, therefore, the law of this state has never been in accord with the common law."

In 1893, a litigant sought to persuade the court to adopt the common law rule of privilege with respect to newspaper reports of matters in litigation. In *Post Publishing Co. v. Moloney* (1893), 50 Ohio St. 71, 33 N.E. 921, the court said, page 89; 926:

"We do not think the doctrine either sound or wholesome."

In 1941 the Ohio Court of Appeals refused to extend the Ohio law of privilege beyond the statute to contemplate a form of common law privilege in *Meyer v. Parr* (1941), 69 Ohio App. 344, 37 N.E. 2d 637, saying, page 641:

> "* * * If an absolute privilege is to be extended * * *, it should be extended by the General Assembly."

In this same connection we note that Ohio Courts, in construing statutes, do not make implied exceptions. The Ohio Courts apply the Latin maxim "Expressio unius est exclusio alterius." In Ohio, this maxim is the primary rule of statutory construction.

In *Weirick v. Lumber Co.* (1917), 96 O.S. 386, 397; 117 N.E. 362, the rule is stated:

> "It is an old rule of construction that where a statute specifically and expressly mentions certain things, other things belonging to the same class, or occurring at the same time, are excluded. In short, when a statute makes certain things mandatory, the presumption is that the other things associated therewith are not mandatory.
>
> "The old Latin maxim *expressio unius est exclusio alterius* has become a primary and well-settled rule of statutory construction."

Since the Ohio statutes specifically provide for defenses in libel and slander cases and specifically cover privilege and since they do not make a false charge of patent infringement, or any other analogous publication, a privileged communication, appellant submits that by statute it is provided that plaintiff need not prove that the charges were malicious in order to recover damages.

**The Ohio Constitution Precludes the Good Faith Defense.**

The Constitution of Ohio has two provisions which preclude an interpretation of the Ohio case law and Ohio statutes which grants anyone the privilege to publish false charges of any kind, including false charges of patent infringement, merely because he or she in good faith believes them to be true.

Article I, Section 11, provides:

> "Every citizen may freely speak, write and publish his sentiments on all subjects, *being responsible for the abuse of that right;* and no law shall be passed to restrain or abridge the liberty of speech, or of the press. * * *" (Emphasis added.)

Article I, Section 16, provides:

> "* * * every person, for an injury done him in his land, goods, person or reputation, shall have remedy by due course of law."

The effect of these Constitutional provisions on the instant facts is two fold. First, that the putative infringer shall have "remedy by due course of law" for an injury done him in his "reputation" and second, that the patentee shall be "responsible for the abuse of that right" to freely speak, write and publish his sentiments on the question of patent infringement.

In *Byers v. Meridian Printing Co.* (1911), 84 Ohio St. 408, 95 N.E. 917, the court held that the Ohio Constitution is controlling on questions of defamation and that not even the legislature has the right to limit the Constitutional guaranties. At 95 N.E. 920, the court said:

> "* * * the guaranties of the Constitution, which are the same for the protection of property and reputation, shall be regarded by the Legislature as well in passing laws relating to evidence and remedies as to substantive law."

Appellant notes particularly that the Ohio Constitution makes no provision for the qualified privilege applied by the District Court in the case at bar. To engraft such a privilege on the Ohio case law and statutes would, therefore, appear to be in conflict with the Ohio Constitution.

**The Treaty of Paris Further Precludes the Good Faith Defense.**

If the rule of Ohio law were that announced by the District Court it would contravene the Convention for the Protection of

Industrial Property of the Union of Paris (53 Stats. 1748), as made applicable to Ohio law by the Constitution of the United States, Article VI, Clause 2; U.S. Code, Title 15, Sections 1126 and 1127; and U.S. Code, Title 28, Section 1652.

The Constitution, Article VI, Clause 2, recites:

> "This Constitution, and the Laws of the United States which shall be made in pursuance thereof; and all Treaties made, or which shall be made under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding."

U.S. Code, Title 28, Section 1652, recites:

> "The laws of the several states, except where the Constitution or treaties of the United States or Acts of Congress otherwise require or provide, shall be regarded as rules of decision in civil actions in the courts of the United States, in cases where they apply."

Appellant submits that the Convention of Paris contains positive rules making false allegations of the character here in suit actionable without regard to the existence of malice and that the Convention is in accord with the Ohio law in regard to malice as appellant understands the Ohio law. Appellant further submits that the view of the District Court makes the Ohio law contravene the treaty.

**The Paris Convention.**

The Convention of Paris was amended and was readopted in its present form at the 1934 meeting of the International Conference at London (53 Stats. 1748).

Article 1 (53 Stats. 1772) states in part:

> "(2) The scope of the protection of industrial property shall include * * * the repression of unfair competition."

Article 2 (53 Stats. 1772) states:

"(1) Nationals of each of the countries of the union shall, in all other countries of the Union, as regards the protection of industrial property, enjoy the advantages that their respective laws now grant, or may hereafter grant, to their own nationals, without any prejudice to the rights specially provided for by the present convention. * * *"

Article 10 Bis. (53 Stats. 1780) provides:

"1 The countries of the Union are bound to assure to nationals of countries of the Union an effective protection against unfair competition.

* * * * * * *

"3 The following particularly are to be forbidden:

* * * * * * *

"2° False allegations in the conduct of trade of a nature to discredit the establishment, the goods or the services of a competitor."

Article 10 Ter. (53 Stats. 1780) states:

"1 The countries of the Union undertake to assure to the nationals of other countries of the Union appropriate legal remedies to repress effectively all acts set forth in Articles 9, 10 and 10 Bis."

Article 15 (53 Stats. 1782) states:

"It is agreed that the countries of the Union respectively reserve to themselves the right to make separately as between themselves special arrangements for the protection of industrial property insofar as such arrangements do not contravene the provisions of the present convention."

**The Convention Is a Part of Controlling Domestic Law.**

Plaintiff submits that the Paris Convention is a part of our domestic law—at least to the extent of supplanting any latent or incipient rule of Ohio law which might otherwise be thought to be in conflict with the Treaty.

The Lanham Act of 1946 was enacted, among other purposes, 'to carry out the provisions of certain international conventions" (Title of Act, 60 Stats. 427).

Section 44 of the Act of 1946 (U.S. Code, Title 15, Section 1126) provides:

> "(b) Persons who are nationals of, domiciled in, or have a bona fide and effective business or commercial establishment in any foreign country, which is a party to (1) the International Convention for the Protection of Industrial Property, signed at Paris on March 20, 1883; * * * shall be entitled to the benefits and subject to the provisions of this chapter to the extent and under the conditions essential to give effect to any such conventions and treaties * * *."
>
> * * * * * * *
>
> "(h) Any person designated in subsection (b) of this section * * * shall be entitled to effective protection against unfair competition, and the remedies provided in this chapter for infringement of marks shall be available so far as they may be appropriate in repressing acts of unfair competition.
>
> "(i) Citizens or residents of the United States shall have the same benefits as are granted by this section to persons described in subsection (b) of this section."

Section 45 (U.S. Code Title 15, Section 1127, omitting reference to trademarks and trade names) provides:

> "The intent of this chapter is * * * to provide rights and remedies stipulated by treaties and conventions respecting * * * unfair competition entered into between the United States and foreign nations."

In the foregoing language, appellant reads that citizens or residents of the United States shall be entitled to effective protection against unfair competition as defined in the Paris Convention.

This specific Paris Convention is discussed in *Master, Wardens, Etc. v. Cribben & Sexton Co.* (C.C.P.A. 1953), 202 F.2d 779. At page 783, the Court said:

"* * * That treaty is part of our law and no special legislation in the United States was necessary to make it effective here. *Bacardi Corp. v. Domenech,* 311 U.S. 150, 61 Sup. Ct. 219, 85 L. Ed. 98. However, terms of the treaty applicable to the situation in the case at bar were embodied in the provisions and subdivisions of Section 44 of the Act of 1946. In re Lyndale Farm, 186 F.2d 723, 38 C.C.P.A., Patents, 825, 829."

A similar view is expressed in *Stauffer v. Exley* (9th Cir. 1950), 184 F.2d 962, 964; and in *Vanity Fair Mills v. T. Eaton Co.* (2d Cir. 1956), 234 F.2d 633, 640.

In applying the somewhat analogous Inter-American Convention for Trade Mark and Commercial Protection, the Court, in *Bacardi Corp. v. Domenech* (1940), 311 U.S. 150, said, page 161:

"This treaty on ratification became a part of our law. No special legislation in the United States was necessary to make it effective. *Head Money Cases,* 112 U.S. 580, 598, 599; *Asakura v. Seattle,* 265 U.S. 332, 341."

*Edye v. Robertson* (1844), 112 U.S. 580, 598-599, 29 L.ed. 798, 804 observes:

"* * * A treaty, then, is a law of the land as an act of Congress is, whenever its provisions prescribe a rule by which the rights of the private citizen or subject may be determined. And when such rights are of a nature to be enforced in a court of justice, that court resorts to the treaty for a rule of decision for the case before it as it would to a statute."

In *Hauenstein v. Lynham* (1879), 100 U.S. 483, the court said, p. 490:

"It must always be borne in mind that the Constitution, laws, and treaties of the United States are as much a part of the law of every State as its own local laws and constitution. This is a fundamental principle in our system of complex national polity." (citations omitted).

*Geofroy v. Riggs* (1890), 133 U.S. 258, 267; 33 L.ed. 642, 645, is in accord:

> "* * * the treaty, being part of the supreme law of the land, controlled the statute and common law of Maryland whenever it differed from them."

**The Defendant's Conduct Is Forbidden by the Convention.**

Plaintiff submits that under the findings of the District Court, defendant's conduct is "particularly" forbidden by the Convention.

In defining acts which "particularly are to be forbidden," the Convention, Article 10 Bis, specifies "False allegations in the conduct of trade." This requirement is met by Findings 3 and 5 (R. 28), which recite: "Prior to the commencement of the above-entitled action, defendant showed to plaintiff, in Ohio, a letter (Exhibit RR) from defendant's patent counsel charging that plaintiff's process infringed defendant's patent * * *"; and "* * * defendant there [in Ohio] published the charge of infringement and also published the charge in the aforesaid trade magazine [a trade magazine of nationwide circulation]." Finding 3 also finds that said "charge was later determined to be false."

The definition continues that the allegations must be "of a nature to discredit." The District Court, in Conclusion of Law 5 (R. 30), found that "a false charge of patent infringement * * * is likely to prevent others from engaging in business dealings with the alleged infringer."*

---

*In this same respect it was said in *Watson v. Trask* (1834), 6 Ohio 532, 533, that "Nothing could have a more direct tendency to the entire destruction of his business"; in *American Well Works v. Layne* (1916), 241 U.S. 257, 259, that "What makes the defendant's act a wrong is its manifest tendency to injure the plaintiff's business * * *"; in *Emack v. Kane* (N.D. Ill. 1888), 34 F. 46, 51-52, that "No businessman wants to incur the dangers of a lawsuit for the profits which he may make as a jobber in handling goods charged to be an infringement of another man's patent. * * * A suit for infringement of a patent is so far outside of the common man's experience that he is terrorized by even a threat of such a

The definition concludes with the thought that the allegations must be related to "the establishment, the goods or the services of a competitor." The District Court in Finding 1-C (R. 27), determined: "At all times between June of 1947 and the present date, plaintiff and defendant have been competitors with one another in their respective businesses of granting licenses under their respective processes, i.e., the 'Kemart Process' of plaintiff and the 'Fluorographic Process' of defendant."

Plaintiff submits, therefore, that the quoted language finds its counterpart both literally and as a matter of substance in the findings of the District Court. Since the acts are "particularly" forbidden by the Convention, any construction of the Ohio law which would tolerate defendant's conduct would contravene the Convention and would be forbidden by the Constitution, Article VI, Clause 2.

**Appellant's Rights Should Not Be Defeated by Implication.**

Appellant submits that the matters of justification which the District Court found present in the case at bar are not applicable to defeat its treaty rights.

It is significant that the treaty specifies that the rights of the contracting nations to enter into other arrangements are to be "without any prejudice to the rights specially provided for by the present convention." (Art. 2(1), 53 Stats. 1772) and to be such as "do not contravene the provisions of the present convention" (Art. 15, 53 Stats. 1782). Any implied exception would certainly "prejudice the rights specially provided for" by Article 10 Bis and would "contravene" Article 10 Bis.

---

suit"; and in *Skinner & Co. v. Shew & Co.* (1892), 1 Ch. 413, 424 that "* * * Now, every person of common sense knows what is involved in patent actions and what the expense of them is, and everybody knows that to be threatened with a patent action is about as disagreeable a thing as can happen to a man in business, and is the thing most calculated to paralyze a man in his business, even if he be innocent of any infringement of patent law."

Moreover, the definitions of the Convention provide a sure and concise definition which is free from ambiguity. Both as a matter of treaty history and as a matter of law, there is no room to impose any exceptions upon the Convention by way of construction.

**The History of the Treaty Negates Implied Exceptions.**

Plaintiff submits that the history of the Convention confirms that the Convention countries did not intend to limit the operation of the Convenion by the application of any considerations of "intent."

Authority to examine the history of a treaty is found in *Cook v. United States* (1933), 288 U.S. 102, 112, 77 L.ed. 641, 646, where the Court held:

> "* * * In construing the Treaty its history should be consulted. Compare *United States v. Texas,* 162 U.S. 1; *Oklahoma v. Texas,* 260 U.S. 606; *Neilsen v. Johnson,* 279 U.S. 47, 52. Both its language and its history show that the high contracting parties did not intend so to limit its operation."

Article 10 had its roots at the Washington Conference on June 2, 1911 (38 Stats. 1645). Article 10½ there adopted provided (38 Stats. 1663):

> "All the contracting parties agree to assure to the members of the Union an effective protection against unfair competition."

Article 10 was expanded at the Conference at The Hague on November 6, 1925 (47 Stats. 1789). The official "Actes de la Conference reunie a La Hague" (Exhibit A accompanying the affidavit of Carl Hoppe) contains the discussions preceding the adoption of Article 10 Bis. The translation (R. 59-61) recites:

> "2. Disparagement
>
> "The proposition of inserting in article 10 a disposition aimed at the repression of disparagement has been approved

by all the delegations. In effect, the act of formulation or spreading affirmations and allegations (that are) false and of a nature to carry damage to the reputation of a competitor or of his establishment or of his merchandise is everywhere considered as contrary to honest usage, and incompatible with the good order of trade. There have been however some difficulties in reaching an understanding on the definition and limitations of this kind of unfair competition.

"The Several Delegations, notably those of Great Britain and the United States, have made the observation that in their country defamation (libel) falls under the disposition of penal laws, and that there is no cause set forth on the subject of special dispositions aimed at the defamation of a competitor. It has been replied that the notion of disparagement is broader than that of defamation, notably that it does not imply an injurious intention. That which one wished to hit is the fact of discrediting a competitor by affirmations contrary to the truth. On the observation to the French delegations that it is possible to disparage a competitor by prejudicial criticisms and comparisons without these being strictly contrary to the truth, it was replied that in an International Convention the sure and precise criterion of the letter contrary to the truth seems indispensable. From another side one has observed that it did not seem either useful or necessary to set forth particular measures near to the fact of discrediting the person or the establishment however and that it would suffice to hit the fact of discrediting the merchandise.

"The Sub-Commission is united in this thought. It has resulted in the following text, adopted unanimously: 'False allegations in the exercise of trade of a nature to discredit the merchandise or product of a competitor!"

Article 10 Bis was then redrafted slightly to substitute the word "goods" for the words "merchandise or products" and was adopted as follows (47 Stats. 1807):

"3. The following particularly are to be forbidden:

* * * * * * *

"2.° False allegations, in the course of trade of a nature to discredit the goods of a competitor."

Article 10 Bis was further expanded at the Conference of London in 1934 to encompass "the establishment * * * or the services" of a competitor as well as his goods (53 Stats. 1780). From the official "Actes" it is clear that the contracting parties were in entire agreement that the treaty "does not imply an injurious intention" and that they intentionally adopted "the sure and precise criterion of the letter contrary to the truth." In this, the textbook writers agree.

Stephen P. Ladas, in the work entitled *International Protection of Industrial Property,* at page 705, said of Articles 10 Bis:

> "The provision under consideration is much broader than mere trade slander or trade libel under the common law, or defamation under the continental law. It covers all cases of 'denigrement' of the goods of a competitor. In the common law countries the strict interpretation of the words 'slander' and 'libel', in their application to trade and business, did not afford such elastic legal material as the general provisions of the Civil codes of continental countries against acts inflicting injury upon another. In 'libel' or 'slander' there must be fraudulent intent and special damage.* As it was pointed out at the Conference of The Hague, the conception of 'denigrement' does not involve a fraudulent intent. The mere fact of discrediting the goods of a competitor by allegations which are untrue constitutes an act of unfair competition. * * *" (footnotes omitted).

And Callmann, in *Unfair Competition and Trade-Marks,* 2nd Edition, Volume 4, Section 99.2(b) states:

> "* * * The concept of 'denigrement' does not require proof of *scienter.* The mere fact that the rivals' product was discredited by false allegations completes the act of unfair competition."

**General Rules of Treaty Construction Also Negate Implied Exceptions.**

Appellant submits that the construction which it urges is also supportable under either of two general rules of treaty construction.

The *first* rule is that a construction favorable to rights claimed under a treaty is the preferred construction. It finds expression in *Bacardi Corp. v. Domenech* (1940), 311 U.S. 150, 163; 85 L.ed. 98, 106:

> "* * * According to the accepted canon, we should construe the treaty liberally to give effect to the purpose which animates it. Even where a provision of a treaty fairly admits of two constructions, one restricting, the other enlarging, rights which may be claimed under it, the more liberal interpretation is to be preferred. *Jordan v. Tashiro,* 278 U.S. 123, 127; *Nielsen v. Johnson,* supra; *Factor v. Laubenheimer,* 290 U.S. 276, 293, 294."

The same rule is stated otherwise in *Geofroy v. Riggs* (1890), 133 U.S. 258, 271-272; 33 L.ed. 642, 646:

> "* * * And it has been held by this court that where a treaty admits of two constructions, one restrictive of rights that may be claimed under it and the other favorable to them, the latter is to be preferred."

The *second* rule is that it is improper to impose any implied exceptions upon any treaty. This rule finds expression in a continuous line of authority.

In *The Amiable Isabella* (1821), 6 Wheat. (19 U.S.) 1, 70, 71; 5 L.ed. 191, 206, the Court said:

> "* * * to alter, amend or add to any treaty, by inserting any clause, whether small or great, important or trivial, would be, on our part, an usurpation of power, and not an exercise of judicial functions. It would be to make, and not to construe a treaty. Neither can this court supply a *casus omissus* in a treaty, any more than in a law. We are to find out the intention of the parties, by just rules of interpretation, applied to

the subject matter; and having found that, our duty is to follow it, so far as it goes, and to stop where that stops—whatever may be the imperfections or difficulties which it leaves behind."

*Society for the Propagation of the Gospel v. New Haven* (1823), 8 Wheat. (21 U.S.) 464, 490, 5 L.Ed. 662, 668, is to the same effect:

"* * * The terms in which this article is expressed are general and unqualified, and we are aware of no rule of interpretation applicable to treaties, or to private contracts, which would authorize the court to make exceptions by construction, where the parties to the contract have not thought proper to make them. Where the language of the parties is clear of all ambiguity, there is no room for construction."

*Doe et al. v. Braden* (1853), 16 How. (57 U.S.) 635, 656, 657; L.ed. 1090, 1099, states:

"The treaty is therefore a law made by the proper authority, and the courts of justice have no right to annul or disregard any of its provisions, unless they violate the Constitution of the United States. It is their duty to interpret it and administer it according to its terms."

The same rule is repeated in *Leavenworth, Etc., R.R. Co. v. U.S.* (1875), 92 U.S. 733; 23 L.ed. 634, as follows (p. 751):

"* * * treaties, like statutes, must rest on the words used,—'nothing adding thereto, nothing diminishing.' In *Rex v. Barrel,* 12 Ad. & Ell. 468, Patterson, J., said, 'I see the necessity of not importing into statutes words which are not found there. Such a mode of interpretation only gives occasion to endless difficulty.' "

And, finally, in *Bacardi Corp. v. Domenech* (1940), 311 U.S. 150; 85 L.Ed. 98 states, (pp. 166, 108):

"The exigencies of local trade and manufacture which prompted the enactment of the statute [which contravened

the treaty] cannot save it, as the United States in exercising its treaty making power dominates local policy."

**The Weight of Sound Authority Negates the Defense.**

The rule which the District Court applied, admittedly, is one which some courts have applied from time to time to defeat the claim of a putative infringer for damages resulting to it from the publication of false charges of patent infringement. Appellant submits that regardless of the Ohio cases, the Ohio Constitution, the Ohio statutes and the Treaty of Paris, the rule is one which is basically unsound and is contrary to the best public interest. The rule has a foundation of sand and it should no longer be followed in this country. At least, it should not be engrafted upon the Ohio law.

The rule which the District Court applied was first announced in *Wren and another v. Weild* (1869), L.R. 4 Q.B. 730. This case is later than *Watson v. Trask* (1834) 6 Ohio 532 and reaches the opposite result. It is the first reported decision which appellant has found anywhere which supports the determination of the District Court. The *Wren* case appears to be the great grandfather of all of the authorities upon which the District Court relied. The facts in that case are set forth, page 733:

> "On the trial before my brother Lush it was proved that the defendant has a subsisting patent. The specification described a very complicated machine, and claimed the whole as a new combination, and also separately claimed many subordinate parts of the machine as new.
>
> "The plaintiffs' machine did not comprise in it anything precisely identical with any of those subordinate parts, but so closely resembled them as, at least, to give plausible grounds for contending that they were equivalent to them.
>
> "The plaintiffs, it appeared, were negotiating for the sale of their machines to different manufacturers, some of whom, if not all, were already using the defendant's machine under licenses from him. The defendant wrote to them the letter complained of in the declaration. There were then some abor-

tive attempts at arranging the terms of an indemnity to be given by the plaintiffs to their customers; but those going off, the customers refused to buy the plaintiff's machine with the risk of litigation with the defendant."

At page 734, the Court pointed out that "no action precisely like this has ever been brought." Then, at page 737, the Court announced the same rule as that which the District Court announced below. At page 737 the Court said:

> "But we think that as soon as it was shewn in evidence that the defendant really had a patent right of his own and was asserting it, the occasion privileged the communication, and the plaintiffs were bound to prove such malice as would support the action. * * * The advisers of the plaintiffs seem to have thought it was enough to maintain this action to shew that the defendant could not really have maintained any action, and that if well advised he would have been told so, so as in this action indirectly to try the question whether an action for the infringement of the patent could have been maintained; whereas, as we think, the action could not lie, unless the plaintiffs affirmatively proved that the defendant's claim was not a bona fide claim in support of a right which, with or without cause, he fancied he had; but a mala fide and malicious attempt to injure the plaintiffs by asserting a claim of right against his own knowledge that it was without foundation."

Thus, in 1869, there, for the first time, arose the conflict in viewpoint before this Court on review. Ohio went the way plaintiff asks this Court to go—England went the way the District Court went. We examine the history of the conflict in England.

In England the rule of *Wren v. Weild* was carried over into equity in the case of *Halsey v. Brotherhood* (1880), 15 Ch. Div. 514, affirmed (1881) 19 Ch. Div. 386.

At this point, the legislature of England by the Act of August 25, 1883 overruled the doctrine of *Wren* and *Halsey* as being contrary to the public policy of that country.

The favorable response of the courts was immediate. In *Driffield & East Riding Pure Linseed Cake Company v. Waterloo Mills etc. Co.* (1886), 31 Ch. Div. 638, 642:

> "* * * The law, as it stood before the new Patents Act enabled persons who were patentees, to fulminate their threats against anybody they liked, cautioning them not to invade the rights which the patentees, or alleged patentees, said or thought they had. *To put a stop to this, an alteration in the law was made.*" (emphasis added).

In *Skinner & Co. v. Shew & Co.* (1892), 1 Chan. 413, the Court discussed *Wren, Halsey* and the new patent act:

> "* * * we all know, as a matter of history that this section in the *Patents Act* was introduced into the Act, partly in consequence of the decision of the Court in *Halsey v. Brotherhood* (1). The headnote to that case, which is sufficient for my present purpose, is as follows: 'A patent, so long as it subsists, is *prima facie* good, and therefore a patentee who issues notices against purchasing from a vendor alleging infringement of his patent is not bound to follow up his notices by taking legal proceedings; and, provided he issues the notices *bona fide* in assertion of what he believes, though erroneously, to be his legal rights under his patent, he does not render himself liable to an action by the vendor for damages for injury caused by issuing them; though he may be liable, notwithstanding his *bona fides,* to be restrained by injunction from continuing to issue the notices, if it is proved in the action for an injunction that his allegation of infringement is untrue. ."
>
> "Now the object of this enactment was to cure two blots—first of all, to give an action for damages where there was not one before, and secondly to enable an action to be brought against a man who uses these threats unless he will, or does follow up his threat by commencing an action himself. That is the key note."

The Court then discussed the question of privilege stating, page 422:

> "Then we are urged to say that a letter which is in answer to a question is privileged. It appears to me that the question of privilege is far away from the subject of this inquiry. There is nothing in the nature of privilege in this matter, either at common law or under the statute, and certainly not under the statute."

Judge Bowen, in discussing the matter said, p. 423:

> "* * * It is to be observed, that in order to make good such a cause of action at Common Law, or to make good such an application for interference by a Court of Equity, you must shew that the statement was false and malicious, a wilful act done without just cause or excuse. And in the case of a person putting forward in the maintenance of what he conceived to be his rights, a false statement which was not itself defamatory believing it to be true, even if the statement did damage to another person, an action would not lie at Common Law, and the Court of Equity would not interfere. Why? Because he would be acting upon his rights in putting forward his own case. The law would not accordingly interfere, and a threat about an infringement, or alleged infringement, could not therefore be made the subject of an action or a suit unless the plaintiff was prepared to show that it was made *mala fide*, and that there was no reasonable excuse for it."

Judge Bowen then showed the fallacy of the former English rule and the correction of the mischief by the legislature, p. 423;

> "* * * But it is to be observed that such a state of law threw an *onus* on those who were in fact aggrieved, which made almost nugatory the remedy in a case of assertions of patent right, the effect of which was to paralyse the trade of others. Because it would be extremely difficult to prove that the persons complained of had put forward these assertions of patent right maliciously, or without just cause or excuse. And apparently the Legislature were of opinion that there was a mischief which was not touched by the Common Law and which they should cure."

At page 424, the Court adopted almost the same thought as that expressed in *Watson v. Trask,* stating:

> "* * * Now, every person of common sense knows what is involved in patent actions and what the expense of them is, and everybody knows that to be threatened with a patent action is about as disagreeable a thing as can happen to a man in business, and is the thing most calculated to paralyse a man in his business, even if he be innocent of any infringement of patent law."

We submit that when the jurisdiction which begat the rule contra the Ohio rule has legislated the rule away and when the courts of that jurisdiction in re-evaluating the question of liability have adopted language analogous to the language of the Ohio *Watson* case, that logic and common sense would indicate that an Ohio court would retain its own rule rather than to adopt a later established contrary rule proven to be genetically unsound.

And in this country too, the general tendency has been to break away from the old *Wren* rule, usually by ignoring it. Exemplary authorities are numerous.

In *American Well Works v. Layne* (1916), 241 U.S. 257, the Court, in an opinion by Mr. Justice Holmes, stated of allegations of false charges that plaintiff was infringing defendant's patents, page 259:

> "* * * If it is a statement of fact, it may be justified, absolutely or with qualifications, by proof that the statement is true. But all such justifications are defenses and raise issues that are no part of the plaintiff's case. * * * What makes the defendant's act a wrong is its manifest tendency to injure the plaintiff's business, and the wrong is the same whatever the means by which it is accomplished."

In *American Ball Co. v. Federal Cartridge Corp.* (8th Cir. 1934), 70 F.2d 579, 98 A.L.R. 665, the Court stated, 70 F.2d 582:

> "* * * it may well be that if the patentee should fail to establish his rights as claimed by him that he might be subject

to an action for damages (because of such false, though honestly believed, statements) on the part of the one mistakenly prosecuted for infringement * * *."

In *E. Edelmann & Co. v. Triple-A Specialty Co.* (7th Cir., 1937), 88 F.2d 852, cert. den. (1937) 300 U.S. 680, the Court of Appeals affirmed the award of damages notwithstanding the complete absence of findings bearing on the existence of malice or the absence of good faith (R. 72-75).

Judge Learned Hand, in a dissenting opinion in *Eastern States Petroleum Co. v. Asiatic P. Corp.* (2nd Cir. 1939), 103 F.2d 315, said at page 322:

"* * * It seems to me strange that such a privilege should exist, if the claim be unwarranted, and I should try to reach an opposite conclusion, if the point were necessary to decide."

In *Black & Yates v. Mahogany Ass'n* (3rd Cir., 1941), 129 F. 2d 227 (cert. den.), 317 U.S. 672, the Court said, pp. 229-230:

"The right of action for disparagement of property was slow in developing at common law. The early cases took a Shaksperian view. So they lagged behind the analogous attack on personality by way of defamation, although an attack on what a man owns and sells would seem to be just as injurious as an attack on what he is. As one might expect the classic exposition is by Professor Jeremiah Smith. After the courts crystallized the tort certain elements remained uncertain. There was not entire agreement on two points, the always technical and confusing conception of malice and the matter of special damage. The learned professor takes the position that in disparagement of quality the rival competitor is not entitled to the qualified privilege of the rival claimant for title and so malice need not be shown in forfeiture thereof * * *[11]"

Footnote 11 referred to in the Court's opinion states:

> "[11]Smith, Disparagement of Property, above cited, p. 139. He says: 'But, on the other hand, a competing trader's omission to disparage the quality of his rival's goods does not involve the loss of his title to his own goods. By disparaging the quality of his rival's goods he may be enabled to sell his own goods to better advantage. But the possibility of his enjoying this benefit does not furnish a sufficient reason why the law should confer upon him prima facie protection in uttering disparaging statements, which turn out to be untrue in fact and which cause damage.' P. 142."

In summation on this legal issue, appellant submits most respectfully that the District Court erred in finding the existence of the qualified privilege. The cases upon which the District Court relied do not support the rule of privilege and indeed negate it. The determination of privilege is contrary to the Treaty of Paris, the Ohio Constitution, the Ohio Statutes, the Ohio case law, and persuasive authority from other jurisdictions.

**The District Court Erred in Basing Good Faith Upon the Opinion of Experienced, Although Interested, Patent Counsel.**

Even if good faith were a justification of a publication of a libel, defendant has not proved good faith. In the case at bar, the District Court found that defendant's charge and publications of patent infringement were made in good faith because they were based upon the opinion of experienced, although interested, patent counsel. Plaintiff submits that this conclusion is erroneous as a matter of law.

In the *first place,* advice of counsel has never been held by any court in Ohio to be a defense to any kind of a defamation. Appellant has found no case so holding and the District Court has cited none in support of its determination (Finding 8, R. 23).

On the contrary, as pointed out in the prior discussion of *McCue v. Wells* (1929), 121 Ohio State 53, the Ohio Supreme

Court has held that a defendant was entitled to prove that the statements contained in letters of infringement were true, but cast aside a contention that the letters were written and set in good faith and upon advice of competent counsel skilled in such matters. Since there is no Ohio authority which justifies one in defaming one of his competitors merely because he in good faith relied upon an opinion of counsel, and since such a defense was not approved the only time the question was presented for decision, we submit that it was error for the District Court to conclude that the instant charge was justified because it was based upon opinion of patent counsel.

In this same vein, it appears that the letters in *E. Edelmann & Co. v. Triple-A Specialty Co.* (7th Cir., 1937), 88 F.2d 852, cert. den. (1937), 300 U.S. 680, 81 L.ed. 884 (Determination 6); in *Ira M. Petersime & Son v. Robbins* (10th Cir., 1936), 81 F.2d 95, cert. den. (1936) 299 U.S. 553, 81 L.ed. 407, and in *International Industries and Developments, Inc. v. Farbach Chemical Co., Inc.* (S.D. Ohio 1956), 145 F. Supp. 34; affirmed (6th Cir. 1957), 241 F.2d 246, were in fact supported by opinions of patent counsel. Indeed, in *Petersime,* and in *International* as appears from the decisions themselves, the very letters which were found actionable were letters of patent counsel.

In the *second place,* even if we were by analogy to apply the rules which Ohio applies in malicious prosecution cases, it would still appear as a matter of law that defendant was not entitled legally to rely upon the instant opinion of counsel.

The one fact which precludes reliance upon the instant opinion, even if we were to adopt the defense contra *McCue v. Wells,* is that counsel was not disinterested. In the case at bar, Mr. McCaleb, whose advice was given and alleged to be taken, was the president and a director of defendant. His opinion therefore, to a certain extent, is that of a person advising himself in his own interest. Kemart submits that no lawyer, however skilled,

can advise himself as to the right and propriety of a charge of infringement and when prosecuted for publishing it, rebut all malice by showing that he advised himself. And the Ohio courts follow this common sense principle.

In *Union v. United Battery Service Co.* (1929), 35 Ohio App. 68, 171 N.E. 608, the syllabus of the Court stated as follows:

> "2. In action for malicious prosecution, instruction that attorney's advice furnished probable cause *held* erroneous, where attorney was director of prosecuting company."
>
> "3. Honest advice of attorney, known by client to be interested in subject-matter and result, is insufficient showing of probable cause for malicious prosecution."

In that case, plaintiff sought damages against defendant for malicious prosecution and false arrest. Defendant offered testimony in its behalf that it relied upon the advice of competent counsel. It was shown that, as here, the counsel was an officer of defendant, being one of its directors. At 171 N.E. 609, in reversing the trial Court for instructing the jury that it could rely upon such an opinion, the Court cited *White v. Carr* (1880), 71 Maine 555, where the court there said at page 557:

> "* * * when the attorney is directly interested in the subject matter of the suit, and his interest is known to the client, the client has no right to presume that he will give him an unbiased opinion; and if he takes it and acts upon it, and it turns out to be erroneous, it will afford him no justification. The client knows that he has not consulted a disinterested and unbiased attorney."

In the *third* place, even if advice of counsel were a defense, and even if counsel had been independent, defendant has not proved all of the elements of the defense. *Norcross v. Commercial Credit Co.* (1950), Ohio Appeals unreported, 55 N.E. 2d 598 states, at page 599:

"There are many elements entering into the defense of advice of counsel, among which are:

"1. Was the advice of counsel in fact obtained?

"2. Was a full and fair disclosure of all the facts made by defendant to his counsel?

"3. Was reasonable diligence exercised by defendant in ascertaining the true facts?

"4. Did the defendant in good faith seek and follow the advice given by his counsel?"

In the case at bar, defendant did not prove full and fair disosure of all the facts (item 2), reasonable diligence in ascertaing the true facts (item 3), or reliance on the advice (item 4).

The good faith and absence of malice Findings No. 1-D, 6 and (R. 27-29) are all premised upon Finding 2 (R. 27) and must erefore fall with Finding No. 2.

In summation, appellant therefore submits that the District ourt erred as a matter of law in finding that advice of counsel as justification for defendant's conduct: (1) advice of counsel not a defense to a defamation in Ohio; (2) advice of interested ounsel is not a defense to any tort in Ohio; and (3) defendant as not proved the elements of advice of counsel if otherwise vailable as a defense.

**e Court Erred in Finding Justification in Plaintiff's Publications.**

In its Findings No. 4, 5 and 7 (R. 28), the District Court made ference to several publications of plaintiff and defendant without awing any legal conclusions from the facts found (R. 30-31), ut containing the implication that they justify defendant's conuct. Appellant submits that, as a matter of law, these findings do ot justify the defendant's defamation.

A *first* aspect of these findings is that "plaintiff itself published e charge of infringement in Ohio" (Finding No. 4, R. 28); that In response to plaintiff's publication in Ohio, defendant there ublished the charge of infringement" (Finding No. 5, R. 28);

and that "Defendant's publications were directed to the same interested persons to whom plaintiff's publications were directed" (Finding No. 7, R. 28). Appellant submits that there is not a scintilla of evidence to support any portion of these findings premised upon plaintiff's publication in Ohio.

Mr. Adams admittedly discussed the letter with Mr. Mertle, but this was no publication since the parties are in agreement that Mr. Mertle was a technical adviser for plaintiff (R. 96, 147). Mr. Adams was certain that he did not mention the letter to Mr. Flader (R. 140) or to Mr. Schmidt (R. 138), but that they mentioned it to him (R. 95). *There is no evidence to the effect that Mr. Adams told either of them or that he told Mr. Latimer about the letter.* Others who knew about the letter were Mr. Marx, Mr. Pensinger (R. 94-95, 181), Mr. Frye (R. 181, 191) and possibly others (R. 181). Any one of these could have told Messrs. Flader, Latimer and Schmidt about the controversy, particularly in view of the last paragraph of the McCaleb letter which recommends that "all users of the Kemart process, insofar as you are able to identify them" be notified (R. 204).

Appellant notes particularly that defendant's nearly contemporaneous admission of publication made of record in January 1949 (R. 147) does not include the July 1956 explanation that the persons approached Marx (R. 181-183).

Appellant submits that even if it were assumed—contrary to the evidence, that the record did support an inference that plaintiff published the charge of infringement at Ohio, still the finding would fail, for then it would fall within the rule announced by the Supreme Court in the celebrated case of *Penna. R. Co. v. Chamberlain* (1932), 288 U.S. 333, 339:

> "We, therefore, have a case belonging to that class of cases where proven facts give equal support to each of two inconsistent inferences; in which event, neither of them being established, judgment, as a matter of law, must go against

the party upon whom rests the necessity of sustaining one of these inferences as against the other * * *."

A *second* aspect of these findings is that plaintiff "subsequently aused the charge of infringement to be published in a trade nagazine of nationwide circulation wherein the infringement was lenied and defendant was accused of wrongful conduct." (Finding No. 4, R. 28). The District Court had reference to defendant's xhibit NN (R. 284-286). Nothing in this publication was untrue (R. 120). As a matter of law this publication is not a defense to he appellant's claim for damages.

As early as *Seely v. Cole* (1834), Wright 681, the Ohio Supreme Court considered this specific question. In that case, defendant offered in evidence "a paper purporting to be plaintiff's answer to he libel, and to prove its publication in the newspaper." The Ohio upreme Court held:

> "* * * It is not material whether he has published it. You cannot set off one libel against another, and the after publication by the plaintiff could not enter into the motive for the defendant's publication."

And in *Udovichky v. Bacheff* (1921), 187 N.Y.S. 474, the court aid, p. 475:

> "* * * Plainly the alleged slanders subsequent to the libel could in no view constitute a justification therefor; * * *."

Furthermore, the letter and the publication were but a natural onsequence of the libelous publication which defendant instituted t the Cleveland Convention. We find no Ohio case in point as to his form of publication, but we do find pertinent authorities rom other jurisdictions.

In *Davidian v. Parparian* (1932), 115 Conn. 718, 161 Atl. 796, t p. 797, it is said:

> "* * * It was the right of the plaintiff to bring the action, and her act in so doing was the natural and probable result

of the slander, and that slander was the proximate cause of the publicity incident to the action and the damages thereby accruing to her."

Indeed, several cases hold that the expenses of such prophylactic publicity are chargeable to the person who defamed the plaintiff.

For example, in *Maytag Co. v. Meadows Mfg. Co.* (7th Cir. 1931), 45 F.2d 299 cert. den. (1931), 283 U.S. 843, the Court, in an opinion by then District Judge Lindley, said, at page 302:

> "* * * Appellee was put to great expense in counteracting this propaganda, and in reassuring dealers and customers of the exact status of the litigation and of the relationship between appellant and appellee."

And in *Ira M. Petersime & Son v. Robbins* (10th Cir., 1936), 81 F.2d 295, cert. den. (1936), 299 U.S. 553, the Court said, at page 297:

> "* * * He issued circulars at a cost of between two and three thousand dollars 'to ease the minds of prospective purchasers,' went to see some of them himself, and sent his agents to other prospective purchasers who were hesitant because of Petersime's conduct. * * *"

A *third* aspect of these findings is that defendant's publication at the convention was "in response to plaintiff's publication in Ohio" (Finding No. 5, R. 28); and that defendant's publication in the trade magazine was "in response to plaintiff's prior publications" (Finding No. 5, R. 28).

The law is settled that defendant had no right to libel the plaintiff in response to plaintiff's publication.

For example, in *Sternberg Mfg. Co. v. Miller Du Brul & Peters Mfg. Co.* (8th Cir., 1909), 170 Fed. 298, there were cross publications of the type at bar. By contrast, the publications asserting infringement were proven to be true and those denying infringement were proven to be false. The patentee brought an action

or defamation and the alleged infringer defended on the ground hat his publication was merely a response to the earlier publi-ation of the plaintiff. The Court struck down this argument, tating, p. 300:

> "* * * The charge that defendant could not libel the plaintiff in retaliation for its offenses was clearly right. One can no more take the law into his own hands, and counteract the effect of one libel with another, than he can take satisfaction for a past physical assult by administering one to the assailant."

Indeed, under the Ohio law as set forth in *Hilbrandt v. Simmons* 1898), 18 Ohio C.C. Dec. 123, 133-134, a libel even if made by ay of retort in the heat of anger during an argument is not a omplete defense to a libel, but may be set forth only by way of itigation of damages.

And in *Gould v. Weed* (1834), 12 Wendell (N.Y.) 12, the efendant relied upon a certain publication by plaintiff. The Court efused to receive it in evidence and defendant claimed error. In olding no error, the Court said (p. 25):

> "* * * Now, in what way the previous publications of the plaintiff would tend to explain or mitigate the harshness and severity of this charge, was not attempted to be shown on the argument; and, after an attentive examination of them, I am unable to discover how they can have such effect. The article secondly offered in evidence by the defendant is but the explanation of certain rumors put forth by the defendant and impeaches nobody * * *."

The defendant's second publication, taking place as it did in Iay of 1949, was five months after the plaintiff's November and December publications of plaintiff's response to defendant's initial ublication. This is too late to be considered as provocation. The uthorities unanimously agree that a responsive publication, to be rivileged or to be considered in mitigation of damages, must nmediately follow the publication claimed to be provocative.

A leading, although recent, case discussing the question is *Conroy v. Fall River Herald News Co.* (1940), 306 Mass. 488, 28 N.E. 2d 729, 731; 132 A.L.R. 927. In that case, at 28 N.E.2d 731, the Court said:

> "Upon either theory, the provocation to be considered in mitigation of damages, must be very recent, and the retort its natural consequence. If there was time for passion to subside, the provocation cannot be considered. * * *"

We find no Ohio authority discussing the exact question, but since the rule appears to be one of universal application, we assume that Ohio follows the weight of authority as collected in an annotation, Provocation as Mitigating Damages in Action for Libel or Slander. 132 A.L.R. 932, 945-947.

Moreover, under the rule in Ohio, the defendant's second and third publications would, we submit, be evidence to show that the initial publication was malicious. As stated in the *Alliance Review Pub. Co. v. Valentine* (1895), 9 Ohio C.C. Dec., 387, 391:

> "* * * We think that it is well settled that a second publication of a libel is competent evidence to show the malicious intent of the defendant."

Appellant submits therefore that, as a matter of law, Findings No. 4, 5 and 7 (R. 28) are not available to justify the defendant's conduct.

## PLAINTIFF SHOULD HAVE BEEN AWARDED REASONABLE ATTORNEY'S FEES

Plaintiff premises its right to reasonable attorneys' fees upon the patent statutes and upon the exceptional conduct of the defendant in this case.

U. S. Code, Title 35, Section 285, provides:

> "The Court in exceptional [patent] cases may award reasonable attorney's fees to the prevailing party."

This case is exceptional in many different facets.

*First,* defendant published its false charges of patent infringe-
ıent without warrant of the law and without a factual investi-
ation.

*Second,* defendant made its charges of infringement precipi-
ıting this action and filed its counter-claim for alleged infringe-
ıent basing its assertions largely upon hearsay and theoretical
onsiderations.

*Third,* defendant frustrated every attempt to take Marx's deposi-
on in Santa Barbara for two full days, requiring plaintiff to file
motion to compel the witness to answers questions. Only after
laintiff and its counsel traveled to Los Angeles for the hearing
id defendant stipulate that all questions would be answered if
ıe deposition were resumed in Santa Barbara at a later date.

*Fourth,* defendant misrepresented the state of the prior art.

*Fifth,* defendant misrepresented the scholastic abilities of its
nly expert, a matter of great weight and consequence in view of
ıe "theoretical" nature of defendant's investigations.

*Sixth,* defendant insisted upon an onerous supersedeas bond,
ven to the extent of putting plaintiff into bankruptcy.

*Seventh,* defendant refused to permit plaintiff to be relieved of
ıe injunction in order to practice the *blue* light procedures which
e far beyond any interpretation of the Marx patent.

Plaintiff submits that if there is any case warranting attorney's
es that this is such a case.

Examples of cases allowing attorney's fees in cases involving
r less extraordinary behavior on the part of a patent litigant
clude:

*Barber-Colman v. Sampsel Time Control* (D.C. Ill. 1948), 78 F. Supp 770;

*Blanc v. Spartan Tool Co.* (7th Cir. 1949), 178 F.2d 104 ($7,500.00 attorney's fees);

*Falkenberg v. Bernard Edward Company* (D.C. Ill. 1950), 85 U.S.P.Q. 127, not reported in F. Supp. ($6,877.14 attorney's fees);

*Brennan v. Hawley Products Co.* (D.C. Ill. 1951), 98 F. Supp. 369 ($3,000.00 attorney's fees);

*Algren Watch Findings Co. v. Kalinsky* (D.C. N.Y. 1951, 91 U.S.P.Q. 369, affirmed (1st Cir., 1953) 197 F. 2d 69, 72 ($2,500.00 attorney's fees);

*Russell Box Co. v. Grant Paper Box Co.* (2nd Cir. 1952), 203 F.2d 177, 181, 184, cert. den. (1953) 346 U.S. 821, reh. den. (1953) 346 U.S. 905 ($30,000.00 counsel fees in trial court and $2,500.00 in court of appeals);

*E. V. Prentice Co. v. Asociated Plywood Mills* (D.C. Oregon, 1953), 113 F. Supp. 182, ($7,500.00 attorney's fees); and

*International Industry and Developments Inc. v. Farbach Chemical Company* (S.D. Ohio 1956), 145 F. Supp. 34, affirmed (6th Cir. 1957) 241 F.2d 246 ($15,000.00 attorney's fees).

Of the foregoing cases, the *Falkenberg,* the *Russell Box* and the *Prentice* cases are perhaps the most significant. In the *Falkenberg* and *Russell Box* cases, as in the case at bar, the person sought to be charged with attorney's fees had been successful in the trial Court, and such success was unavailing to him. In the *Falkenberg* case, the Court cited the instances of "where a defendant prolongs the litigation to increase the plaintiff's expenses" as one example of "inequitable conduct for which there should be some compensation to the prevailing party" (85 U.S.P.Q. 128). In the *Russell Box* case the Court held controlling "carelessness in ascertaining the facts, carelessness in construing claim 3 or a combination of the two." (203 F.2d 183). In the *Prentice* case, the attorney's fees were awarded to a declaratory judgment plaintiff.

*International Industries,* the attorney's fees were awarded cause the issuance of infringement was done in implied malice law.

Plaintiff submits therefore that under the authorities this case is ideal example of a case justifying an award of attorney's fees. In denying the award of attorney's fees, the District Court based decision largely upon the fact that the misrepresentations were t material (Findings 11 and 12, R. 29).

The Supreme Court, of an analogous view in *Hazel-Atlas Co. v. rtford Co.* (1944), 322 U.S. 238, stated at page 246:

> "The Circuit Court also rested denial of relief upon the conclusion that the Clarke article was not "basic" to the Court's 1932 decision. Whether or not it was the primary basis for that ruling, the article did impress the Court, as shown by the Court's opinion. Doubtless it is wholly impossible accurately to appraise the influence that the article exerted on the judges. But we do not think the circumstances call for such an attempted appraisal. Hartford's officials and lawyers thought the article material. They conceived it in an effort to persuade a hostile Patent Office to grant their patent application, and went to considerable trouble and expense to get it published. Having lost their infringement suit based on the patent in the District Court wherein they did not specifically emphasize the article, they urged the article upon the Circuit Court and prevailed. They are in no position now to dispute its effectiveness. * * *"

Counsel points out particularly that exhibit J was the only monstrative exhibit which the defendant offered to show the te of the prior art, and that Walter Marx was the only witness hich defendant offered at the trial to explain the technical operaons of both plaintiff's and defendant's procedures. Since these e the two most important issues on the questions of validity and fringement, defendant in the case at bar should not be permitted dispute the effectiveness of the misleading testimony.

There remains the question as to whether the discretion of the District Court in allowing or denying attorneys fees is reviewable. One of the grounds warranting review is where the Court's exercise of discretion below amounted to an erroneous conception of law. See *Shingle Products Patents v. Gleason* (9 Cir. 1954), 211 F.2d 437. In the case at bar, appellant submits that the District Court erred in the conception of the principles applicable to the defendant's conduct of the patent infringement issues and that the denial of an award of attorney's fees is therefore reviewable.

Moreover, in the case at bar, the allowance of attorneys fees does not rest of necessity upon U.S. Code, Title 35, Section 285. If this Court is of the view that plaintiff is entitled to damages because of the wrongful charges of patent infringement, then plaintiff is entitled to attorney's fees as a part of its expenses in clearing up the defamation by virtue of the substantive law of Ohio.

Under the Ohio law, expenses of litigation including attorneys' fees are an element of the damages. The general rule as to the conflict of laws on damages is stated in 15 C.J.S. 956, Conflict of Laws, § 22 k., as follows:

> "According to the general rule as stated in the C.J.S. title Damages § 4, also 17 C.J. p. 719, note 33, 62 C.J. p. 1114, note 17, in actions for tort the measure and elements of damages pertain to the substance of the right and not to the remedy, so that such matters are generally regarded as being regulated by the law of the place in which the tort was committed—the *lex loci delicti.*"

Under the Ohio law, it is quite clear that a plaintiff should be completely compensated for his damages, including his expenses and costs in litigating the matter.

In *Stevens and Wife v. Handly* (1832), Wright 121, the Court held that the damages

> "* * * should be sufficient to cover all the expenses and costs of plaintiff's in litigating the matter, including their loss of time—such as will make them whole."

The rule is also applied in *Sexton v. Todd* (1833), Wright 316, s comprehending

> "such sum as will *compensate* the plaintiff for the trouble and expenses of clearing up the charge."

In *Finney v. Smith* (1877), 31 Ohio State 529, the foregoing ıles are stated to be applicable without regard to the question f malice.

*Kahn v. Cincinnati Times Star* (1890), 8 Ohio N.P. 616, 620, firmed without report 52 Ohio State 662; and *Dabney v. Russell* 1935) 50 Ohio App. 43, 46; 197 N.E. 409, 410 are in accord.

## CONCLUSION

In conclusion, appellant submits that the judgment of the Dis-ict Court should be reversed with directions to award plaintiff its amages and reasonable attorneys' fees.

Respectfully submitted,

HENRY GIFFORD HARDY
410 Mills Building
San Francisco 4, California

CARL HOPPE
2610 Russ Building
San Francisco 4, California

No. 15,638

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

---

KEMART CORPORATION,

*Plaintiff-Appellant,*

*vs.*

PRINTING ARTS RESEARCH LABORATORIES, INC.,

*Defendant-Appellee.*

---

## BRIEF FOR APPELLEE.

---

JULIEN F. GOUX,
32 Howard-Canfield Building,
Santa Barbara, California,

LEONARD S. LYON,
LEONARD S. LYON, JR.,
ROLAND N. SMOOT,
811 West Seventh Street,
Los Angeles 17, California,
*Attorneys for Appellee.*



Parker & Son, Inc., Law Printers, Los Angeles. Phone MA. 6-9171.

## TOPICAL INDEX

## TABLE OF AUTHORITIES CITED

### Cases

PAGE

## Rules



## Statutes

## Statutes and Treaties



## Textbooks

No. 15,638

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

---

KEMART CORPORATION,

*Plaintiff-Appellant,*

*vs.*

PRINTING ARTS RESEARCH LABORATORIES, INC.,

*Defendant-Appellee.*

---

## BRIEF FOR APPELLEE.

---

This is an appeal from a judgment of the United States District Court for the Southern District of California, Central Division, dismissing the claim of Kemart Corporation, appellant herein, for damages for unfair competition of the type constituting trade libel or disparagement of property, and for attorney's fees alleged to be due Kemart following its successful appeal in *Kemart Corporation v. Printing Arts Research Laboratories, Inc.* (9 Cir. 1953), 201 F. 2d 624. The decision appealed from is reported in *Kemart Corporation v. Printing Arts Research Lab.* (D. C. S. D. Cal., 1956), 146 F. Supp. 21 and follows the mandate of this Court after decision in *Kemart Corporation v. Printing Arts Research Lab.* (9 Cir. 1956), 232 F. 2d 897.

## Jurisdiction.

Jurisdiction of the District Court is based upon diversity of citizenship under U. S. Code, Title 28, Section 1332. Kemart is a California corporation [R. 1, 9];* appellee is a Delaware corporation [R. 1, 10]; and the amount in controversy is in excess of three thousand dollars exclusive of interests and costs [R. 4, 11]. Appellee agrees that the District Court also has jurisdiction under U. S. Code, Title 28, Sections 1331, 1338, 2201 and 2202.

Jurisdiction of this Court is based upon U. S. Code, Title 28, Section 1291, as this appeal is from a final decision of the District Court entered on December 19, 1956 [R. 26-32]. The Notice of Appeal was filed on January 21, 1957 [R. 56] within thirty days after denial of a Motion to Amend filed January 2, 1957 [R. 32-54]. The record before this Court does not show such Motion to Amend to be timely, but it was served within ten days after entry of the final decision of the District Court on December 19, 1956.

## Statement of the Case.

We are satisfied in the main with the review of the proceedings below set forth in Kemart's brief. We do not, however, agree with the statement by Kemart of the questions presented, and we are not satisfied with Kemart's recitation of the evidence before this Court.

Kemart's appeal raises three questions:

1. Is Kemart entitled to damages because appellee showed four interested persons in Ohio a letter charging that Kemart was infringing its patent after at

---

*In referring to the record, we will follow the practice initiated by Kemart in its brief at page 2.

least one of the persons was informed of such charge by Kemart and because appellee responded to Kemart's publication of the charge and a denial thereof in a national trade journal by statements in such trade journal asserting the charge to be true, all in good faith and without malice?

2. Should this Court overturn the express findings of the District Court that appellee, in charging Kemart with infringement of its patent, acted in good faith and without malice [Findings of Fact 1-D, 2, 6, 8; R. 27-29]?

3. Should this Court overturn the express findings of the District Court that the case on appellee's patent was not an exceptional case; that appellee evidenced no unfairness or bad faith during the trial of such case; that its conduct was actuated by a reasonable belief in good faith that Kemart's process was an infringement of its patent; that neither the conduct of appellee nor any other equitable consideration makes it grossly unjust that Kemart should pay its own counsel fees; and hold that the District Court abused its discretion in not awarding attorney's fees to Kemart [Findings of Fact 14, 15; R. 29, 30]?

Throughout the period commencing in October 1948, culminating in the decision of the District Court to the effect that the Marx patent was valid and infringed, Mr. Alfred G. McCaleb of Chicago, Illinois, advised and represented appellee. Mr. McCaleb was a widely experienced and nationally respected trial lawyer specializing in patent causes. Although Mr. Walter Marx, patentee on the Marx patent, was the actual operating head of appellee, the business of which is in Santa Barbara, California, Mr. McCaleb, in addition to his regular practice, occupied the

position of appellee's president. During that period and at the present time Mr. Frank Adams, also an attorney, occupied the position of president of Kemart. Mr. McCaleb is now deceased.

Before the Cleveland Photoengravers Convention in October of 1948 Mr. McCaleb advised appellee that the operations of Kemart constituted an infringement of the Marx patent and that users of the so-called "Kemart Process" were, themselves, infringers. He did this by letter [R. 176; Exhibit RR; R. 177, 287], and he discussed the matter of the infringement with Mr. Marx and Mr. Pensinger of appellee at his offices in Chicago, giving as his opinion that the infringement existed [R. 177, 178]. At that time Mr. Marx was familiar with the Berry patents which describe the Kemart process, had studied them, knew what the Kemart process constituted and was of the opinion himself that the Kemart process infringed [R. 178, 179, 191, 192]. Further, Mr. McCaleb was himself technically able to tell Mr. Marx about the Kemart process [R. 192]. Mr. McCaleb also warned Mr. Marx and Mr. Pensinger against discussing the controversy with any potential customers of appellee [R. 179, 180].

Mr. Marx took with him to the convention a copy of a letter from Mr. McCaleb to Kemart and before lunch on the first day of the convention handed the letter to Mr. Frank Adams, president of Kemart [R. 180; Exhibit 29; R. A. 745]. This letter charged that the Kemart Corporation, sponsor of the Kemart process, contributorily infringed the Marx patent and further charged that anyone practicing the Kemart process infringed the patent. Although the letter recommended that users of the Kemart process be notified of the existence of the Marx patent and their infringement thereof, Mr. McCaleb, as shown

above, did not authorize such notification, and, in fact, no approach to users was ever made.

According to Mr. Adams, right after seeing the letter he had lunch with Joe Mertle whom he told about the letter [R. 136, 137]. Mr. Mertle is not an employee of Kemart but rather an author and an authority on photoengraving who is retained by many people in the photoengraving industry to give technical advice. He was retained part-time by Kemart, but Kemart was just one of those who retained him [R. A. 321; R. 96]. Mr. Mertle is one of the three people to whom, according to Mr. Adams, the letter was shown. Another was Mr. Lewis Flader, executive secretary of the Photoengravers Association for thirty years, the leading figure in the entire Association, and editor of the Photoengravers Bulletin [R. A. 321; R. 95]. Finally, Mr. Adams testifies that the letter was shown to Mr. Paul Schmidt, head of the Pitman Company, one of the largest graphic arts supply firms in the country and who handled the products of appellee and the products of Kemart [R. A. 321; R. 95].

It was the charge of infringement levelled in the letter shown to the three above gentlemen that, according to Kemart, constitutes the libel in this case. Although recalling having himself published same to Mr. Mertle, Mr. Adams could not recall whether or not he saw Mr. Flader and Mr. Schmidt at any time subsequent to Mr. Adams having seen the letter, but prior to their having seen the letter, and consequently could not recall whether or not he told these gentlemen about the letter before Mr. Marx showed it to them. Owning to a very hazy memory after eight years, Mr. Adams did, however, state his best recollection to be that he did not [R. 136-141].

Mr. Marx concedes that he showed the letter to the gentlemen in question and to Mr. Latimer, an associate of Mr. Schmidt with the Pitman Company [R. 180-183]. This, however, took place following luncheon and consequently subsequent to the publication of the alleged libel by Mr. Adams himself to Mr. Mertle. He showed the letter to Mr. Mertle in response to Mr. Mertle's question about a patent suit, such question obviously being the upshot of Mr. Adams' own discussion with Mr. Mertle at lunch. Similarly, Mr. Flader approached Mr. Marx, asked about the Kemart battle, and was shown the letter. Very much the same thing happened in respect to Messrs. Schmidt and Latimer. They asked him about the battle and he showed them the letter. He did not comment about the matter himself, nor did he discuss the controversy between Kemart and appellee [R. 180-183].

The record before the District Court is absolutely barren of any activity during or after the convention on the part of Mr. Marx or any of the Printing Arts Research people which could be considered an attack upon the business of Kemart Corporation. Mr. Adams, however, went home and prepared and sent out a circular letter to the licensees of the Kemart process, which letter was mimeographed so that copies also went to Kemart dealers to be given to prospective Kemart licensees, among whom it may be assumed were the licensees of Printing Arts Research. The letter was also sent to the editor of the Photoengravers Bulletin, Mr. Flader, with the suggestion that he publish it because Mr. Adams "wanted to get my statement of opinions to as many people as I could" [R. 97-99; Exhibit 60; R. 265-267].

The letter of Mr. Adams set forth that appellee had charged Kemart with infringement and denied the in-

fringement. Not only was it sent to the various licensees of Kemart and of appellee, but it was published to the trade in the Photoengravers Bulletin [Exhibit NN; R. 284-287]. Thus, not only was the charge first published by Kemart to an individual, Mr. Mertle, but it was first published generally by Kemart through letters to the trade and through the Photoengravers Bulletin article. The letter, in addition to reporting the filing of the suit, asserted that the suit was filed "for the purpose of protecting you and ourselves against a series of threats by the representatives and employees of Printing Arts Research Laboratories, Inc.," expressed the opinion "that the owners of the fluorographic process are mistaken in their threats," and further asserted that "Not only are the threats and statements made by the defendants false in fact, in our opinion, but we regard them as contrary to the proper spirit of competition which should exist between two organizations endeavoring to render service and supplies to the photoengraving industry." Finally, the letter requested that its recipients forward to Kemart Corporation any communications or notices they might receive from Printing Arts Research Laboratories, Inc.

When the publication in the Photoengravers Bulletin came to the attention of the Printing Arts Research people it was discussed between them and with Mr. McCaleb. It seemed to the Printing Arts Research people "to distort the facts of the case" [R. 183]. The word "distort" but moderately characterizes the letter, the tenor of which was to proclaim to the entire industry that Printing Arts Research was attempting by coercive and improper means to destroy the business of Kemart Corporation and of its customers. Not once but six times does the letter refer to wrongful acts, doings and threats by Printing Arts

Research Laboratories, Inc. This despite the fact that even today not one iota of evidence exists establishing that appellee or its people had even discussed the matter with users of the process or customers. Mr. McCaleb, however, would not permit appellee to respond to the publication [R. 183]. It was not until the District Court denied Kemart's Motion for Preliminary Injunction months later that Mr. McCaleb permitted any release to the trade publication.

This release, which appeared in the Bulletin for May of 1949, truthfully and factually reported the status of the suit, that the injunction sought by Kemart Corporation had been denied, and set forth the contentions of appellee in answer to those advanced by Kemart when Kemart introduced the subject into the press. The release was accompanied by a notice which likewise reported the denial of the temporary injunction sought by Kemart, pointed out the legal effect of the action by the Court and advised the intention of appellee of protecting its interests [Exhibit 34; R. 263-265]. So far as the complained of libel is concerned, the release and notice added nothing to that which had been previously caused to be published in the same trade journal by Kemart. At this time appellee had about two hundred licensees [R. A. 218]. It derived its income from them and owed its business life to them. Kemart had undertaken a campaign to appropriate appellee's licensees unto itself, and appellee, believing in good faith that its patent was infringed, could not sit idly by indefinitely following the publicizing of the Kemart contentions by Kemart. It was incumbent upon appellee to protect its property. To this effect, there was also published in the Photoengravers Bulletin for June 1950 a news item advising the trade of the newly set date

for trial of the infringement suit and of suit brought in Chicago against a representative used of the Kemart process [R. 122; Exhibit 74; R. 282].

That about sums up the record supporting Kemart's claim for damages based on unfair competition. With one dubious exception, Kemart has failed to produce any instance pointing to any approach whatsoever by the Printing Arts Research people to customers, either orally or by letter. Exhibits 62, 65-70, 72 and 73 are merely letters expressing concern over the litigation, the publicity as to which was released by Kemart itself in the generally circulated letter Exhibit 60 and in Exhibit NN published in the Photoengravers Bulletin. Kemart's witnesses do not support the allegations of the Complaint. Youngdahl's testimony as to Krus, as to Repritone and as to Bee Engraving adds nothing [R. 152-157]. Mr. Adams concedes that the response to Kemart's request to recipients of the Kemart letter Exhibit 60, which asked that communications or notices received from Printing Arts Research Laboratories, Inc. be forwarded to Kemart, was nil [R. 146]. And Kemart did not bring one customer or potential customer or user of any photoengraving process forward to testify that appellee had threatened him under the Marx patent or, indeed, had approached him in any way.

In but one particular does it appear that any attempt is made by Kemart to substantiate its charges published to the trade in its letter Exhibit 60. That is in the testimony of Mr. Adams wherein he stated that Mr. Frey, a Printing Arts Research saleman, told him at a 1954 convention that he prevented a Kemart sale in Miami by stating that if the customer took Kemart, it was going to be sued [R. 115-117]. Mr. Frey, pursuant to stipulation, flatly denied that he discussed the conflict with any customers or others

outside the organization and denied that he discussed the matter in any manner with Mr. Adams. He testified that since the inception of the conflict, he had been under strict instructions from Mr. Marx not to discuss the conflict with anyone [R. 171, 172]. This was corroborated by Mr. Marx who testified that his instructions to Mr. Frey were not to discuss anything except the status of the case with anyone and was but consistent with the Printing Arts Research policy as regards discussion of the lawsuit [R. 185, 186]. Further, it is but consistent with Mr. Marx' testimony to the effect that he knew of no instance in which Mr. Frey approached any customers and discussed the lawsuit, and, indeed, knew of no instance when anyone else in the organization did the same [R. 186]. In any event, even if Mr. Adams' testimony may be believed, for all the record shows, the alleged customer contact took place subsequent to the judgment of the District Court granting to appellee an injunction to protect its patent and prior to the reversal in this Court.

As to matters concerned with the conduct of the litigation itself, the attack by Kemart seems to be levelled largely at Mr. McCaleb. Mr. McCaleb cannot defend himself for he is deceased, but the District Court had ample opportunity to observe the conduct and activities of both Mr. McCaleb and Mr. Marx during the trial. There was nothing extraordinary about the trial. It was routine and, as the District Court observed, ably presented on the part of both sides [R. A. 631]. It is nonsense to propose that the District Court was in any way imposed upon, deluded, misled or oversold. The District Court immediately grasped the real point at issue. This was simply whether or not the Marx patent claims, properly construed, covered the variation in the Kemart process

from the Marx process, whereby after ultra-violet light reached the copy, the light passing from the copy to the camera was fluorescent light of a different wave length [R. A. 277, 635-659]. This is the precise point at which the views of the District Court and the views of this Court diverged. This Court, as a matter of law, held that the term "ultra-violet light only" limited the patent claims to the precise type of light reaching the camera and held that properly construed, the Marx patent claims did not include the fluorescent light reaching the camera in the Kemart process (201 F. 2d 624 at page 627).

In an attempt to establish malice and bad faith at the trial, Kemart has seized upon certain incidents common to hard-fought litigation, and from these urges, in effect, that Mr. McCaleb conducted himself improperly at the trial and that appellee's entire conduct in the premises is to be criticized. With this view, of course, Judge Mathes did not agree.

Kemart alludes to struggling for two days to obtain answers on a deposition, despite the fact that after application to the District Court to compel answers, Kemart stipulated to a withdrawal of the motion and a resumption of the deposition. While appellee agreed to answer the questions, such agreement constituted no concession that the questions were proper. The record respecting these depositions and the objectionable questions is not entirely clear [R. A. 405-509], but even a casual reading of the record indicates that objection to them was well taken, as for example, where counsel for Kemart attempted to require the witness to interpret the patent document [R. A. 418-425, 427 *et seq.*]. Kemart could have urged penalties and sanctions pursuant to Rule 37 but did not. Judge

Mathes found that the two-day delay was not due to bad faith and did not injure Kemart [Findings of Fact 10; R. 29].

Kemart proposes that appellee misrepresented the scholastic abilities of its expert, Mr. Marx. The point is entirely collateral and has nothing to do with the case inasmuch as the case turned squarely on claim interpretation as a matter of law. Mr. Marx has made it very clear that instead of going to Dartmouth College he went to Clark School in Hanover where some of the Dartmouth faculty taught and that he early fell into the habit of exaggerating this phase of his schooling [R. 195-197]. This is much akin to the harmless exaggerations indulged in by some Menlo Junior College students in respect to Stanford University, and the comments of the District Court at the supplemental trial seem appropriate to dispose of any charge of maliciousness [R. 229-231]. Judge Mathes found the representation to be a matter of no material consequence either in the prosecution or defense in the action [Findings of Fact 11; R. 29].

Kemart suggests that appellee misrepresented the state of the prior art. Its charge in this regard is demonstrably erroneous and misleading. It seems to be bottomed on the proposition that a newspaper half-tone print [Exhibit J; R. A. 134] was not a very good half-tone print and that there existed better examples of half-tone prints in the prior art, such as Exhibits 79, 80 and 81 [R. 159-161; Exhibit 59; R. 168]. Entirely aside from the fact that this case neither in the trial court nor in this Court turned on the quality of those half-tone prints, Kemart's argument in respect to them completely misses the point of the Marx invention. The Marx patent was not urged by the District Court as valid because it provided a means for

creating half-tone prints better than the half-tone prints available in the prior art. Quite to the contrary, Mr. Marx carefully testified at the trial as follows:

> "Q. Were ways to get the dots out of the highlight areas of a halftone reproduction totally unknown prior to your invention? A. Oh, no. There were a number of ways that people removed those dots." [R. A. 125]

He went on, moreover, to point out various means in the prior art for accomplishing the removal of the dots from the highlighted areas such as painting them out, carving them out, lens manipulation, masking and the like, and made the point that the value of the Marx invention was in avoiding these expensive, time-consuming operations [R. A. 125-129]. Indeed, Mr. Marx read from the history of the application leading to the grant of Kemart's own Berry Patent No. 2,395,986 the argument advanced by counsel for Kemart which described the prior art methods of making half-tone prints and pointed out the difficulties inherent in these methods. Mr. Marx agreed that the passage represented a fair statement of the problems which confronted the photoengravers art prior to his invention [R. A. 129-132].

Moreover, it is apparent that Judge Mathes understood Mr. Marx' point and understood it well, the District Court stating during the trial:

> "The Court: As I understand the witness's position here, if it is material, he removes those dots or pattern of the screen from the highlight areas in a more efficient, more economical, and more desirable manner than was done in the prior art." [R. A. 258].

In fact, Judge Mathes invited counsel for Kemart to produce, if he wished, his own examples [R. A. 256]. Such examples are Exhibits 79, 80, 81 and 59. These exhibits are utterly valueless because no evidence was produced by Kemart as to how they were made [R. 163, 186-188]. For all we know, they could have been made by painting out the highlighted dots, by carving them out, by lens manipulation or by other means. We may assume that whatever method was used to create them it was expensive, time-consuming and required the services of those most talented and expert in the art. Nothing about these exhibits or the testimony concerning them in any way weakens or impugns Mr. Marx' testimony that his invention rendered the removal of dots in highlights more economically feasible. Judge Mathes simply found that appellee did not materially misrepresent the state of the prior art [Findings of Fact 12; R. 29].

Kemart complains that following the entry of the decree of validity and infringement of the patent, appellee opposed the efforts of Kemart to be permitted a low supersedeas bond and opposed the efforts of Kemart to modify the injunction of the District Court. Judge Mathes found that the determination as to the amount of the supersedeas bond and as to the form of the injunction was by the Court [Findings of Fact 13; R. 29].

## ARGUMENT.

In its argument, Kemart proposes that under Ohio law this is a libel case and that the law of Ohio is to the effect that a charge of patent infringement, later proven erroneous, renders the party making such a charge liable in damages without more. Kemart rejects any defense of privilege, absolute or qualified, and proposes that good faith has nothing to do with the matter. At the same time, and despite urging that the case is controlled by Ohio law and constitutes libel, Kemart proposes that this is a case of unfair competition under the Paris Convention and that the broad statement of principle therein set forth proscribing false allegations in the conduct of trade of a nature to discredit the establishment, the goods or services of a competitor, unimplemented by Congressional effectuation, imposes liability here. Finally, Kemart argues, despite Judge Mathes' findings of fact, that if bad faith and malice be needed to award damages and attorney's fees, they are present.

We respectfully submit that Kemart is wrong in all the above particulars.

1. This is a case not of personal libel but of unfair competition of a type sometimes called "disparagement of property" and sometimes called "trade libel". As such, good faith is an absolute defense to the cause and Ohio accords with general law in rejecting the concept of liability present such good faith.

2. Even if this case be treated as one of personal defamation under the Ohio law, Ohio is orthodox in allowing qualified privilege where the alleged libel is

published to interested parties; and where qualified privilege is found, Ohio requires a showing of actual malice before liability will be imposed.

3. The District Court found as a fact that the charge of infringement by appellee was qualified and that appellee acted in good faith and without malice; this record nowhere justifies an overturning of that finding.

4. The Paris Convention but sets forth a broad principle regarding disparagement of property, does not purport to set forth a code applicable to unfair competition cases of this nature before our domestic courts, and has never been implemented by Congressional action. On the contrary, Congressional action, subsequent to the Convention, merely substantiates the proposition that Congress never intended Article 10 Bis. 2° to set forth the entire law governing the disparagement of property phase of the law of unfair competition.

5. The District Court found as a fact that in the trial of this cause appellee evidenced no unfairness or bad faith and that neither the conduct of appellee nor any other equitable consideration makes it grossly unjust that Kemart should pay its own counsel fees. Nothing in this record justifies a determination that the District Court abused its discretion in refusing to award attorney's fees.

## I.

## The Instant Case Is a Case Not of Personal Libel but of Unfair Competition, and the Law of Ohio and General Law Holds Good Faith to Be an Absolute Defense.

The principal, and indeed only, case upon which Kemart directly relies is *Watson v. Trask* (1834), 6 Ohio 531, 27 Am. Dec. 271. As will be shown hereinafter, this venerable case, while a libel case, by no means holds that a charge of patent infringement, later determined to have been erroneous, lays the basis for damages without more. In that case, the defendant went far beyond a mere charge of patent infringement and published defamatory matter of a personal nature, which today, as then, would have rendered the defendant liable in damages. Since, however, the syllabus of *Watson v. Trask* states it to be libel to charge a man with infracting a patent, Kemart proposes the disposition of this case to be as simple as is the syllabus statement. The case was decided over one hundred years ago at a time well before the legal concept of unfair competition in business had matured. For this reason and because of the personal defamation present in the case, unfair competition was not discussed in the case. We submit that nothing in *Watson v. Trask* entitles Kemart to urge appellee's charge of infringement as other than unfair competition.

Since *Watson v. Trask* was a personal defamation case however, since among other things the defendant there falsely charged the plaintiff with patent infringement, and since subsequent Ohio cases have cited *Watson v. Trask* in personal defamation cases, Kemart reaches the conclusion that the case entitles it to label the complained of infringement charge by appellee as a libel, and having

reached this conclusion, Kemart assumes that the legal rights and duties of the parties should be tested as though this were a case involving prostitution, venereal disease or the like. It is submitted that in this Kemart fails to appreciate that we are here dealing with the property rights of business competitiors, not personal defamation.

Nims, the great author on trademarks, unfair competition and conflicting rights in intangibles in *Unfair Competition and Trade-Marks,* Fourth Edition, Vol. II, §259, entitled "Difference Between Trade Libel And Personal Libel" at pages 836 and 837 clearly analyzes the distinction, stating:

> "The essential differences between personal and trade libels and the reasons for requiring proof of special damage where trade disparagement (not personal libel) is charged, suggest the possibility that trade disparagement is not libel in the usual sense especially where it is directed against a competitor's business and goods, but is more accurately described as unfair competition. In considering American cases, therefore, it is helpful to bear in mind the difference between trade libels and personal or character libel. A libel of a man's personal reputation involves his good name. That vitally concerns his standing among men, and the repute of himself and his family in the community."

and

> "False statements as to merchandise or trade are made for the purpose of getting a rival's trade away from him. They do not often involve any criticism of his character, impute to him any loathsome disease, or charge him with crime, or defect in character, in the sense in which such criticism could be construed as libel. To say of another falsely something 'which

may impair or hurt his trade or livelihood, as to call a tradesman a bankrupt, a physician a quack, or a lawyer a knave' undoubtedly is libel. To so speak of a person is to discredit him among his fellows, to deprive him of his neighbors' respect and confidence—to brand him as unfit to share in the life of those about him. To say falsely that a rival is infringing one's patent; that a newspaper is not of a class specified by statute for publication of certain advertising; or that plaintiff's safes may easily be opened,—is not a libel in the usual meaning of the term. It is a false and fraudulent statement, made to obtain unfairly the business of another."

Further, Nims in §264 at page 857 states: "To warrant interference, the circumstances attending an issue of circulars threatening litigation should indicate bad faith," and in §266 at page 861: "Claims of infringement by a trademark owner or a patentee cannot be considered a legal wrong unless made in bad faith."

The same distinction between personal defamation and disparagement of property rights is made in the Restatement. In the Restatement of the Law of Torts, Vol, III, Section 573, deals with personal defamation. Comment "g" thereunder is entitled "Disparagement of Goods Distinguished" and sets forth that a statement disparaging of another's products is not actionable under the rule stated in §573. As to disparagement, the Restatement in Section 647 provides that a rival claimant is privileged to disparage another's property in land, chattels or intangible things by an honest assertion of an inconsistent legally protected interest in himself, and in the same vein §773 of the Restatement provides that one may in good faith assert or threaten to protect property of his own which he believes

may otherwise be impaired or destroyed by the transactions of another. Neither the Restatement nor Nims imposes any qualification as to the privilege. Nice questions as to the interest or status of the recipient of the publication are not involved. It is only necessary that good faith be present.

And in Callman, *Unfair Competition and Trade-Marks,* Vol. I, Chapter 11, entitled "Disparagement of a Competitor and His Product" it is stated in §42.4 at page 594: "Bad faith is an essential element of unfair competition in such cases," and at page 595: "The mere fact that the patent is invalid or not infringed does not constitute bad faith."

Thus, the text writers and authors who have analyzed the problem are in accord. The consequences that flow from statements arising from disputes over property rights and business competition are not those that flow from personal defamation. While it is one thing to impugn a man's reputation for honesty, or a woman's chastity, it is quite another to actively protect one's legal rights in property. Public policy insists upon freedom in respect to the latter so long as bad faith is not present. In the instant case, we have a charge of patent infringement. That charge is unaccompanied by any personal imputation involving the Kemart Corporation or any of its employees. In such a situation, the courts of the United States are in accord that no tort is involved unless bad faith be shown. For example, in *D. E. Virtue v. Creamery Package Manufacturing Company* (1912), 227 U. S. 8, 57 L. Ed. 393, the Supreme Court said at page 38 (227 U. S.):

> ". . . Patents would be of little value if infringers of them could not be notified of the consequences of

infringement, or proceeded against in the courts. Such action, considered by itself, cannot be said to be illegal. . . ."

The case was related to *Virtue v. Creamery Package Mfg. Co.,* 123 Minn. 17, 142 N. W. 1136, wherein it was stated:

". . . Thus an assertion by defendant that he has some right, title, or interest in the property, made in an honest belief of its truth, defendant supposing that he is entitled to the interest he asserts, is qualifiedly privileged and no action for slander of title can be maintained, although the statements are in fact untrue. If defendant, believing himself to have an exclusive patent, issues a notice of an alleged infringement by plaintiff in good faith as a warning against an invasion of his rights, a mistake on his part as to the validity of his claim will not render him liable to an action."

This Court states the rule in *Celite Corporation v. Dicalite Co.* (9 Cir. 1938), 96 F. 2d 242, cert. den. 305 U. S. 633, 83 L. Ed. 407, at page 250 (96 F. 2d):

"Bad faith is an essential element in the charge of unfair competition where such charge is based upon claims of patent infringement and threats to take action based upon such infringement. Emack v. Kane, C. C., 34 F. 46; Alliance Securities Co. v. De Vilbiss Mfg. Co., 6 Cir., 41 F. 2d 668; Oil Conserv. Eng. Co. v. Brooks Eng. Co., 6 Cir., 52 F. 2d 783, 785; American Ball Co. v. Federal Cartridge Corp., 8 Cir., 70 F. 2d 579, 98 A. L. R. 665; Art Metal Works v. Abraham & Straus, 2 Cir., 70 F. 2d 641.

"There is nothing wrong in notifying infringers that they are guilty of infringement and are liable therefor. Indeed, such notice is required in some

fashion before suit for infringement can be maintained. 35 U. S. C. A. §49; American Ball Co. v. Federal Cartridge Corp., supra, 70 F. 2d 579, at page 581, 98 A. L. R. 665."

The cases throughout the country dealing with this problem are many, but all subscribe to the rule that good faith is a complete defense to this type of action. *Eastern States Petroleum Co., Inc. v. Asiatic Petroleum Corporation, et al.* (2 Cir. 1939), 103 F. 2d 315; *Kaplan et al. v. Helenhart Novelty Corporation et al.* (2 Cir. 1950), 182 F. 2d 311; *Bechik Products, Inc. v. Flexible Products, Inc.* (2 Cir. 1955), 225 F. 2d 603; *A. B. Farquhar Co. Limited v. National Harrow Co.* (3 Cir. 1900), 102 F. 714; *United States Galvanizing & Plating Equipment Corporation v. Hanson-Van Winkle-Munning Co.* (4 Cir. 1939), 104 F. 2d 856. See *R. W. Eldridge Co., Inc. v. Southern Handkerchief Mfg. Co.* (D. C. W. D. S. C., 1938), 23 F. Supp. 179 and *Zephyr American Corporation v. Bates Mfg. Co.* (D. C. D. N. J., 1945), 59 F. Supp. 573.

In the *Kaplan* case at page 314 the Court of Appeals for the Second Circuit said:

". . . it is not an actionable wrong for one in good faith to make plain to whomsoever he will that it is his purpose to insist upon what he believes to be his legal rights, even though he may misconceive what those rights are. Eastern States Petroleum Co., Inc. v. Asiatic Petroleum Corporation, 2 Cir., 103 F. 2d 315. And this has long been recognized in respect to patent rights. Kelley v. Ypsilanti Dress-Stay Mfg. Co., C. C. E. D. Mich., 44 F. 19, 23, 10 L. R. A. 686; Virtue v. Creamery Package Mfg. Co., 8 Cir., 179 F. 115, 120. As was observed when the judg-

ment in the case last mentioned was affirmed by the Supreme Court, 227 U. S. 8, 37-38, 33 S. Ct. 202, 208, 57 L. Ed. 393, 'Patents would be of little value if infringers of them could not be notified of the consequences of infringement * * *'."

And again in the *Bechik Products* case that same court said, at page 606:

"In Kaplan v. Helenhart Novelty Corp., 2 Cir., 182 F. 2d 311, 314, we held that, '* * * It is not an actionable wrong for one in good faith to make plain to whomsoever he will that it is his purpose to insist upon what he believes to be his legal rights, even though he may misconceive what those rights are.' The owner of a patent has a right to threaten suits for infringement, provided he does so in good faith. . . ."

Similarly, the Court of Appeals for the Third Circuit in the *A. B. Farquhar Co. Limited* case stated at page 715:

" 'Where notices are given or circulars distributed in good faith to warn against infringement, no wrong whatever is committed; . . .' ".

It is seen, therefore, that the courts throughout the United States display unanimity in holding the law to be that charges of infringement absent bad faith provide no cause for damages. If bad faith be present, the problem is one of unfair competition residing in a disparagement of property. It is unfortunate that the tort is sometimes characterized as a trade libel, for the term "libel" implies concepts derived from the law of personal defamation, the application of which to a case such as the instant case lead only to unnecessary complication.

The law in the State of Ohio is no different than the law in the Ninth Circuit and throughout the rest of the nation. Since the unfair competition concept began to develop in our courts, the publication of charges of patent infringement has been held in Ohio, as in the rest of the country, to involve matters of unfair competition and to turn squarely on the factual question of whether or not good faith is present. This is not to say that *Watson v. Trask* has been overruled, but as will be shown hereinafter, *Watson v. Trask* simply constitutes no authority for the proposition advanced by Kemart that good faith has nothing to do with the liability of one who charges infringement under a patent but later loses in the patent litigation.

That Ohio now recognizes the type of cause asserted here is evident from *The Henry Gehring Co. v. McCue* (1926), 23 Ohio App. 281, 154 N. E. 171 and *McCue v. Wells* (1929), 121 Ohio St. 53, 166 N. E. 892. These cases expressly state the matter to be one of unfair competition. Similarly, causes such as are here asserted arising in Ohio but litigated in the Ohio District Courts and in the Sixth Circuit are dealt with as matters of unfair competition. *Oil Conservation Engineering Co. v. Brooks Engineering Co.* (6 Cir. 1931), 52 F. 2d 783; *Alliance Securities Co. v. De Vilbiss Mfg. Co.* (6 Cir. 1930), 41 F. 2d 668. See *Coats Loaders & Stackers, Inc. v. Robert D. Henderson et al.* (6 Cir. 1956), 233 F. 2d 915; *International Industries and Developments, Inc. v. Farbach Chemical Company, Inc.* (D. C. S. D. Ohio W. D., 1956), 145 F. Supp. 34; affirmed (6 Cir. 1957), 241 F. 2d 246.

There is no hint in these cases that the considerations such as cover personal defamation are to govern asserted liability on account of charges of patent infringement.

Rather, wherever good faith has been raised as a defense, the cases have simply turned on the factual determination of its presence or lack.

The law in Ohio is well set out in the *Alliance Securities* case wherein the charges of infringement were published in various newspapers, at page 670:

> "We are aware of no ground upon which claims of infringement made by a patentee can be considered a legal wrong unless those claims are made in bad faith; that is maliciously. This bad faith may be made to appear in a variety of ways, but until it does appears the patentee has the right to notify all those whom he believes to be infringing that he will hold them for such liability as he may be able to establish; indeed, it has been said that it is his duty to do so, and it is apparent that under some circumstances he may lose rights if he does not do so. The subject is well covered by the comment of (then) District Judge Hand in Asbestos Shingle, Slate & Sheathing Co. v. H. W. Johns-Manville Co. (C. C.) 189 F. 611, 613. After reciting the holdings that an injunction against such claims by a patentee would not issue unless he was acting in bad faith, it is said: 'Indeed, it is clear that unless the (patentee) did so act, it would be unjust to prevent him from advising users of his rights, etc.' . . ."

The same view is present in the *Oil Conservation Engineering Co.* case wherein it is stated at page 785:

> "We cannot agree with the conclusion below that the defendant had been guilty of any conduct properly classed as unfair competition. In a general way, the situation was the not uncommon one where the older manufacturer has patents which seem to cover the competitive article. The patents are presumedly valid.

> Litigation is expensive and to be avoided, if possible. Notices to the competitor that he is infringing, and perhaps to the manufacturer for the competitor, and to a limited number of his chief customers, are the normal procedure and not to be condemned, when characterized by good faith. . . ."

The *Oil Conservation Engineering Co.* case was cited and relied upon in the *Coats Loaders & Stackers* case in 1956, and recently in 1957 in the *International Industries and Developments* case the Court of Appeals for the Sixth Circuit again reiterated the bad faith rule, stating at page 248 (241 F. 2d):

> ". . . Moreover, the record supports the conclusion of the trial court that the issuance of the notice of infringement was done in implied malice in law, if not in actual malice, and in bad faith constituting unfair competition."

Strangely enough, Kemart in its brief proposes that the *International Industries and Developments* case overrules the prior Sixth Circuit decisions. Neither the facts of the case nor any statement by the Court of Appeals justifies this conclusion. Referring to the Findings of Fact and Conclusions of Law set forth in the opinion of the District Court (145 F. Supp. 34) it will be seen that:

> 1. Plaintiff, without prior notice to defendant, mailed 8000 letters under the letterhead of a patent attorney to the "trade", which letters had the effect of indicating that defendant was an infringer of plaintiff's patents.
>
> 2. Plaintiff knew, or should have known, that defendant's product did not in fact infringe his patents.

3. Plaintiff introduced no evidence to indicate that it had ever analyzed defendant's product, although it was a simple and easy matter to do so.

4. As a matter of fact plaintiff misled the District Court into dismissing defendant's motion for summary judgment on the unfounded grounds that the motion left "genuine issues of fact" which could only be determined at the trial.

5. Plaintiff failed at the trial to offer evidence or to produce any witnesses which raised or substantiated any disputed or genuine issues of fact.

6. The patent attorney who wrote the letter, 8000 copies of which were sent to the "trade", had no personal knowledge of the facts set forth in that letter.

7. Plaintiff's failure to introduce evidence at the trial to support its charge of infringement conclusively establishes bad faith and malice, first, in sending out the 8000 letters, and second, in filing the subject complaint.

8. As a matter of fact plaintiff engaged in willful, wanton and premeditated acts of unfair trade practice and unfair competition against defendant.

It will be seen that these findings established bad faith as thoroughly as bad faith could be established, and when the Court of Appeals stated that ". . . the record supports the conclusion of the trial court that the issuance of the notice of infringement was done . . . in bad faith constituting unfair competition" it presumably meant what it said. That the court added the term ". . . implied malice in law, if not in actual malice . . ." detracts

not a bit from the court's approval and reliance upon the findings of bad faith by the District Court. The dissent by Judge Stewart merely indicated that he was of the view that even the record before the court did not support the finding of bad faith. Certainly, the case did not turn upon differences between the majority and Judge Stewart as to the necessity of bad faith as a *sine qua non* of liability.

The simple fact is that no case in Ohio or elsewhere holds that a published charge of patent infringement, later judicially determined to be wrong, renders the patent owner liable in damages if that patent owner acted in good faith. Kemart urges that the *McCue* cases (*McCue v. Wells* and *Gehring v. McCue, supra*) stand for this proposition. It is idle to concern ourselves with the pleadings and briefs of the parties to that litigation, for the opinion of the Court of Appeals of Ohio in *Gehring v. McCue* shows that the court reversed a demurrer below on the ground that the allegations of the petition set forth acts and circumstances analagous to cases of successful recoveries because of malicious acts by way of litigation in the courts and alleged that the conduct of the defendant had no warrant or proof. The court merely ruled that bad faith had been sufficiently alleged. The opinion of the Supreme Court of the State of Ohio in *McCue v. Wells* simply reversed a damage award following the first appeal on the ground that the court had erroneously charged the jury to the effect that defendant was not claiming actual infringement as a defense. The court found it unnecessary to rule on the question of good or bad faith. The importance of both cases is that each treated the cause asserted as one to be adjudged according to the law of unfair competition.

We turn now to *Watson v. Trask* (1836), 6 Ohio 531, 27 Am. Dec. 271. Kemart proposes that *Watson v. Trask* requires that this Court accept the view that regardless of good faith, any party publishing a charge of infringement, which charge is later judicially determined to be erroneous, is liable in damages to the party accused to infringe. *Watson v. Trask* was not, however, an unfair competition case of the type set forth above, but rather was a personal defamation case and thus is not in point here. It provides no authority that would require that this Court depart from the general law, recognized in Ohio as elsewhere, and concur in Kemart's view. Further, even if it were to be conceded that the instant case should be disposed of under the Ohio law directed to personal defamation, we will point out in the ensuing section of this brief how *Watson v. Trask* does not deprive appellee of its claim of privilege.

In discussing *Watson v. Trask,* Kemart has neglected to recite the published libel and has neglected to set forth enough of the opinion to enable this Court to properly evaluate it. The publication was as follows:

> "The public are cautioned against purchasing, making or vending the pretended patent right of one Watson to the patent bark mill, he having no right whatever to the same. The original patentees to said patent bark mill are Edward and John Trask, who have deeded their right in this state to the subscriber, who alone can and will dispose of the right to said mill in Ohio."
>
> "Isreal Trask"

"Edward and John Trask invented and put into operation in the year 1819 or 1820, a bark mill, and in the year 1821 obtained letters patent for the same. In the year 1822, Clinton Watson, by his own confession, saw and examined one of said mills, and, it is believed, called on the patentees for the purpose of procuring the right of vending same, which was not granted. Soon after, he commenced selling mills after this pattern, and still perseveres in his infringement of the right of said Trask, shielded from prosecution by his want of responsibility."

"I. Trask"

The Supreme Court of Ohio laid down as the rule of law in Ohio at page 532:

". . . A libel in reference to individual injury may be defined to be a false and malicious publication, against an individual, whether in print or in writing, or by pictures, with intent to injure his reputation, and expose him to public hatred, contempt, or ridicule."

As to the particular publication the court said:

". . . The publication is declared to be of the plaintiff in his business of maker and vendor of bark mills. It imputes to him the infraction of another's patent. This, if true, would subject him, and those purchasing and using his mills, to prosecution. Nothing could have a more direct tendency to the entire destruction of his business. It denies the plaintiff's right to deal in the subject of his occupation and asserts an adverse inconsistent right which he knew and acknowledged. It thus imputes to him falsehood, fraud, the want of capacity to confer a legal right by the sale of his manufactures. It does not stop there. It asserts, moreover, in direct terms, that he perseveres in this fraudulent and pirating trade upon the rights of the

Trasks, because he is 'shielded from prosecution by his want of responsibility'. If irresponsible to the inventor whose right he was charged with infringing, he was equally so to those who should purchase of him. The charge is, if you deal with this man you incur the risk of lawsuits for violating the rights of others, and he is insolvent, irresponsible to indemnify. Would not such a charge, if true, blacken a man's reputation, injure his business, expose him to hatred and contempt? In our understanding, the publication is unequivocally libelous."

This, it is submitted, is a far cry from holding that a naked charge of patent infringement constitutes a libel. The publication is characterized by three things. First, it charges patent infringement. Second, it charges, in stating that Watson by his own confession saw and examined one of the mills and called on the patentee for the purpose of procuring the rights of vending same, that Watson knew and acknowledged the right of the Trasks, implying that Watson was piratically operating absent even a color of right. Third, it charges, in stating that Watson was shielded from prosecution by his want of responsibility, that he was insolvent and irresponsible to indemnify.

The court did not treat these as separate libels. On the contrary and in accordance with the law of Ohio and elsewhere, it treated the publication as a whole. *Tappmeyer v. Journal-Republican Co.* (1919), 31 Ohio Dec. 32; *Shallenberger v. Scripps-Pub. Co.,* 17 Ohio Cir. Ct. (New Series) 546, affirmed 85 Ohio St. 492. And treating the publication as a whole, the court in its opinion in the language quoted above made it very clear that the publication qualified as personal defamation, namely, that it

was a false publication with intent to injure plaintiff's reputation and expose him to public hatred, contempt or ridicule. The court referred to the fact that the charge of patent infringement would have a direct tendency to injure the business of Watson. With this we have no argument with Kemart. The court further stated that the publication imputed to Watson falsehood and fraud, but nothing in the decision indicates that the court felt that the naked charge of infringement accomplished this. Rather, the court first specifically pointed out that the publication accused Watson of knowing of and acknowledging Trask's inconsistent right. The court then emphasized that the publication averred Watson to be shielded from prosecution by his want of responsibility and stated the charge to be that if a customer deal with Watson he incurs the risk of lawsuits for violating the rights of others although Watson is insolvent* and irresponsible to indemnify. Immediately thereafter the court asks whether or not such a charge would blacken a man's reputation, injure his business and expose him to hatred and contempt.

We agree with the Supreme Court of Ohio and say that of course it would, but we say emphatically that this was a finding of personal defamation since the very statement of the law of Ohio set forth by the court in *Watson v. Trask* constitutes a definition of personal defamation and nothing else. Kemart has suggested that the court's comments as to acknowledgment of the patent rights of the Trasks by Watson and the insolvency of Watson is but an independent ground for the decision in the case. Any careful reading of the case leads to the opposite conclusion. The case is a simple case involving personal defamation,

---

* See Nim's statement on pages 18-19 of this brief to the effect that this is personal defamation.

and it has never been cited in any case in Ohio or elsewhere in the United States as standing for something else. All the Ohio cases citing *Watson v. Trask* refer to it as laying down the law in Ohio governing personal defamation. Thus, *Watson v. Trask* detracts not one bit from the force and effect of the previously set out rule governing unfair competition, whether characterized as trade libel, disparagement of property, or otherwise. To such a charge good faith is a defense in Ohio as elsewhere.

Kemart, in its brief, appears to concede by its silence the proposition that *Watson v. Trask* has never been cited in a case in Ohio as authority for the proposition that a naked charge of patent infringement rendered in good faith constitutes actionable libel. They do, however, point to the headnote in the case and its statement that it is a libel to charge a man with infringing a patent. Additionally, they point to three other Ohio cases as consistent with what they propose to be the rule of *Watson v. Trask. Mason v. Stacey & Carroll* (1879), 7 Dec. Rep. 567, 3 Bull. 1100; *Joseph v. Christy* (1882), 8 Dec. Rep. 476, 8 Bull. 190; and *Dopp v. Doll* (1885), 9 Dec. Rep. 428, 13 Bull. 335. These cases do not involve Kemart's rule at all and have nothing to do with good faith or lack thereof. As for the headnote, we learn early in the study of law that headnotes are but traps for the unwary. The headnote of *Watson v. Trask* read out of context furnishes an excellent example of such a trap. Such a headnote, standing alone, fails to supply us with anything approaching a definitive rule of law. In contrast, Corpus Juris Secundum at 35 C. J. S. 68 cites *Watson v. Trask* as holding that a charge of patent infringement has been held to be libelous where it tends to impeach one's reputation and expose him to public

hatred, contempt and ridicule. It is appellee's thesis, therefore, that *Watson v. Trask* is no more and no less than a personal defamation case, and that as far as unfair competition is concerned, the law of Ohio is as it is elsewhere. The good faith and lack of malice manifested by appellee constitutes an absolute defense to Kemart's charge.

Were it necessary otherwise to distinguish the instant case from *Watson v. Trask* the task is not difficult. Even were the distinction between personal defamation and unfair competition not recognizable in Ohio because of *Watson v. Trask,* express malice and bad faith are apparent from the publication there for there was an accusation, not of simple patent infringement, but of knowing patent infringement by one who was said to have conceded the patent right of the defendant and who was said to be insolvent and irresponsible to indemnify. Consequently, had the defense of good faith been raised, it could not have prevailed for it did not exist. The simple fact is that *Watson v. Trask* does not hold good faith unavailable as a defense to a charge of having published a notice of patent infringement. As demonstrated hereinabove, the defense is good throughout the land. It is available in this case and it has been established in this case.

## II.

## The Defense of Qualified Privilege Is Available in Ohio as Elsewhere, Even Though This Case Be Treated as One Governed by the Ohio Law of Personal Defamation.

We have shown that the instant case sounds in unfair competition and that according to the law of Ohio and elsewhere good faith is an absolute defense to the charge levelled here, *Watson v. Trask* notwithstanding. Kemart, however, would have the case decided on the basis of the rules governing libel constituting personal defamation. In this, Kemart's argument asserts that under the libel laws of the State of Ohio, the defense of privilege does not exist. To support its view, Kemart argues that neither the Ohio case law, the Ohio statutory law, nor the Ohio constitution recognizes good faith as a defense to a charge of libel.

We submit that Kemart entirely misconceives the law of Ohio as regards libel, and that in this regard the law of Ohio since the middle of the last century is no different than the law throughout the rest of the country. Briefly stated, a libel presumes legal or implied malice, but such presumption is rebutted if the libel be privileged. If the privilege be absolute, no liability exists; if the privilege be but qualified, liability occurs only if actual or express malice be proved.

The law in Ohio is well set out in 25 Ohio Jur., Libel and Slander, §56, at pages 202 *et seq.:*

> "Actions for libel and slander have always been subject to one principle; defamatory statements, though they may be actionable on ordinary occasions, nevertheless are not actionable when they are made upon certain occasions; it is not that the

statements constituting libel and slander are subject to a defense, but the principle is that statements, made on a privileged occasion, from the very moment they are made, do not constitute libel or slander of which the law takes notice."

This quotation is in general taken from the case of *Liles v. Gaster* (1885), 42 Ohio St. 631, at page 636. The court further said at the same page:

"Malice is either express or implied. If the occasion is such that the statement is privileged, the presumption of legal or implied malice is rebutted, and the burden is on the plaintiff to aver and prove malice in fact, or express malice . . ."

Quoting again from 25 Ohio Jur., §69, at page 213, it is said:

"Publications having a qualified privilege are more numerous than those of absolute privilege. Publications qualifiedly privileged are those where the privilege arises out of the circumstances of the publication . . .

"It is necessary to the plea of privilege that there be an absence of malice in the publication. The matter being a privileged communication, only the legal presumption of malice is taken away; it is no answer to the charge of publishing defamatory matter which is false in fact, and published maliciously, and not bona fide, or from a proper motive. The protection which the occasion for the publication might otherwise afford, ceases, when it is shown, that it has been abused for malicious purposes or from improper motives, and the responsibility for any false and defamatory statements is the same as in other cases. Good faith in the publication and the exercise of reasonable diligence to ascertain the truth of its

statements are essential to the privilege . . . When the occasion is such that the statements made by one concerning another come under the head of privileged communications, it is a sufficient defense to an action for libel or slander that the statements were made in good faith, with a reasonable and honest belief in their truth, . . . The rule is that if the occasion be such as repels the presumption of malice, the communication is privileged, and the plaintiff must then, if he can, give evidence of malice, and if he gives no such evidence, it is the office of the judge to direct a nonsuit, or a verdict for the defendant."

Again, at §81, at page 223, it is said:

"A communication is qualifiedly privileged when made in good faith in answer to one having an interest in the information sought, . . ."

The cases fully substantiate the conclusions drawn in Ohio Jurisprudence that the case law of Ohio affords, in libel actions, the defendant a plea of qualified privilege.

In *Wahle v. Cincinnati Gazette Co.* (1879), 6 Dec. Rep. 709, 4 Bull. 61, at page 710 (6 Dec. Rep.) it is said:

"When the occasion is such that the statements made by one concerning another come under the head of privileged communications, it is a sufficient defense to an action for libel or slander that the statements were made in good faith, with a reasonable and honest belief in their truth . . ."

In *Blair v. Burroughs* (1890), 23 Bull. 180, an objection was made to a charge to the jury. The judgment of the Circuit Court, affirmed by the Supreme Court, was that there was no error in the charge of the Court of Common Pleas to the jury on the trial of the cause. The

following is part of the charge to the jury, which the Supreme Court of the State of Ohio said was not erroneous:

> " 'Malice may be expressed or implied. Express malice is active malice, ill will, hatred or revenge, or it may be a reckless or wanton disregard of the rights of another. And implied malice is the inference of law arising from facts which are shown to exist . . . but this inference of law may be rebutted, and this brings us to the question of privileged communications . . .
>
> "A privileged communication is one made to a person who has an interest in knowing what is thus communicated, made privately, without unnecessary publication, and of such facts as the person to whom the communication is made has an interest in knowing. . . "

In *The Post Publishing Co. v. Moloney* (1893), 50 Ohio St. 71, 33 N. E. 921, at page 84 (50 Ohio St.), it is said:

> ". . . Whether it (a publication containing libelous words) be privileged, or not, must depend upon the circumstances of the publication, as well as the language employed. Writers upon the subject, include all privileged publications within two classes; those which are absolutely privileged, and those in which the privilege is but qualified. There are not many of the first class, nor is it desirable there should be . . . Publications having a qualified privilege are more numerous, and are those where the privilege arises out of the circumstances of the publication. Good faith in the publication, and the exercise of reasonable diligence to ascertain the truth of its statements are essential to the privilege, which is said to be

qualified because the plaintiff may recover, if actual malice be shown, notwithstanding the existence of the circumstances which would otherwise make the publication a privileged one. Included in this class, are reports . . . and communications, which one person is under an obligation to make to another, or in the subject matter of which they have mutual interests."

Again, in *Ramseyer v. Sheehan,* Ohio Court of Appeals, Lucas County, 1923, 1 Ohio L. Abs. 233, at page 234, it is said:

"Statements made in good faith . . . are privileged . . .

"A denial . . . of the exact words alleged is not inconsistent with the plea of conditional privilege . . . Privilege does not depend upon the words used but upon the place and circumstances under which they were used."

In *Harris v. Reams* (1860), 2 Dec. Rep. 281, at page 282, it is said:

"A plaintiff can only recover for a libel or slander when the words are *false* and *malicious,* either in law or fact."

After discussing the *per se* doctrine, the court said:

". . . There is a large class of 'privileged communications,' which, though false, are *prima facie* in good faith; and for which an injured party has no redress, except on proof of *express malice.*"

In *How v. Bodman* (1855), 12 Dec. Rep. 272, it is said:

"When defamatory matter is published, which is false in fact, malice is a presumption of law. This

presumption of malice is rebutted, if it appears from an examination of the matter published, that it falls within the description of what are called privileged communications . . . But, though the matter might be considered as privileged, this would be no answer to the action, if in its publication there was malice in fact. The matter being a privileged communication, only takes away the legal presumption of malice; it is no answer to the charge of publishing defamatory matter, which is false in fact, and published maliciously, and not *bona fide,* or from a proper motive. The protection which the occasion for the publication might otherwise afford, ceases, when it is shown, that it has been abused for malicious purposes . . ."

And as recently as 1952 in *De Angelo v. W. T. Grant Co.,* Ohio Appeals (8 Dist. 1952), 64 Abs. 366, 111 N. E. 2d 773, which was a slander action involving an employer and employee, the court recognized the existence of the qualified privilege and held that in such a case, in order to recover, the plaintiff would have to show express malice, which was a question of fact.

In discussing *Watson v. Trask* and the other cases cited by Kemart, we have shown that a naked charge of infringement, later proved erroneous, is not, under the Ohio law, a personal libel in connection with which malice will be presumed. Even were we to concede Kemart's point however, it is clear that Kemart has misconceived the legal effect of implied malice in a libel action and has lost sight of the fact that qualified privilege removes the presumption and requires that the allegedly libeled party prove actual malice and bad faith. The District Court below found as a fact that the publication in Ohio was made to interested persons, and further found as a fact

that the publication was made in good faith [Findings of Fact 1-D, 2, 6, 7 and 8; R. 27-29]. As will be shown later, no justification exists in the instant record for ignoring these findings.

While Kemart argues otherwise, neither case, statute nor constitution in Ohio denies to appellee its right to show qualified privilege, good faith and lack of malice. Certainly, *Watson v. Trask* does not support Kemart's position, for in *Watson v. Trask* the defense of privilege was not raised, and had it been raised, it could not have prevailed for good faith was manifestly absent there.

*Heimlich v. Dispatch Printing Co.* (1916), 18 Ohio N. P. (N. S.) 505, merely stated the rule urged by appellee. *Union Central Life Ins. Co. v. Mutual Benefit Life Ins. Co. et al.* (1877), 5 Dec. Rep. 521, 2 Bull. 269, has nothing to do with privilege or the effect of privilege in rebutting legally implied malice. *Kahn v. Cincinnati Times-Star* (1890), 8 N. P. 616, 10 Ohio Dec. 599, affirmed 1895, 52 Ohio St. 662, 44 N. E. 1132; *Cincinnati St. Ry. Co. v. Cincinnati Daily Tribune Co.* (1900), 10 Ohio Dec. 281; and *Peer v. Hoiles* (1925), 3 Ohio L. Abs. 653 are to the same effect. *Mulcahy v. Deitrick* (1931), 39 Ohio App. 65, 176 N. E. 481 and *Westropp v. The E. W. Scripps Co.* (1947), 148 Ohio St. 365, 74 N. E. 2d 340 both involved the determination of whether or not the plaintiff must prove actual malice in the first instance. Neither involved any determination of the effect of a showing of qualified privilege to remove the implication of malice.

We have discussed the other Ohio cases cited by Kemart in the foregoing section of this brief respecting unfair competition. These cases in no way support Kemart's argument. No more do *Metro-Goldwyn-Mayer*

*Corp. v. Fear* (9 Cir. 1939), 104 F. 2d 892; *American Ball Co. v. Federal Cartridge Corporation et al.* (8 Cir. 1934), 70 F. 2d 579; and *Emack v. Kane et al.* (C. C. N. D. Ill. 1888), 34 Fed. 46. These are cases of unfair competition and are in entire accord with the rule that bad faith must be shown before liability ensues because of a charge of patent infringement. The latter two cases are in fact cited by this Court as supporting the rule of good faith announced in *Celite Corporation v. Dicalite Co., supra.*

In addition to citing the cases above, Kemart maintains that the doctrine of qualified privilege does not exist in Ohio because of the Ohio statutes and the Ohio constitution. This despite the incontrovertible fact that the Ohio courts have recognized the doctrine for one hundred years.

Kemart notes Section 2901.37 of the Ohio Revised Code and the alternative use of the words "false or malicious" in this statute. The statute does not deal with privilege, does not purport to abolish privilege, and is a criminal statute. Moreover, as stated in 37 Ohio Jur. Statutes, §420 at page 744:

> "It is a well-settled general rule, recognized by the General Code, that a strict construction is to be accorded to penal statutes . . ."

Accordingly, a strict interpretation must be applied to the word "false." Such an interpretation would require that it mean something more than untrue or mistaken. See *Ratterman v. Ingalls* (1891), 48 Ohio St. 468, 28 N. E. 168; *Touts v. The State of Ohio* (1925), 113 Ohio St. 450, 149 N. E. 551; and *Heindel v. United States* (6 Cir. 1945) 150 F. 2d 493.

Kemart also cites Sections 2739.02, 2317.04 and 2317.05 and Article 1, Section 11 of the Ohio Constitution. By no rule of statutory construction could these provisions be held to include all possible defenses to an action for libel, but Kemart argues that the effect of the statutes and the constitution is to abolish common law privilege. To the contrary, the Supreme Court of Ohio, in discussing privilege and Article 1, Section 11 of the Ohio Constitution, states in *Cleveland Leader Printing Co. v. Nethersole* (1911), 84 Ohio St. 118, 95 N. E. 735, at page 133 (84 Ohio St.):

> "A not unimportant consideration pertinent to the general subject is that of so-called privilege. It rests upon that clause of our Bill of Rights, section 11, which provides: 'Every citizen may freely speak, write and publish his sentiments on all subjects, being responsible for the abuse of the right; and no law shall be passed to restrain or abridge the liberty of speech, or of the press.' Then follows that which relates to criminal prosecutions for libel, . . . the liberty thus given is to publish truth with good motives and for justifiable ends . . . Not that this implies a distinction as to limitation of right between a newspaper publisher and any other individual, for the publisher is not, at common law, privileged as such in the dissemination of news, but is liable for what he publishes in the same manner as any other individual. But it is not to be inferred that the publisher is subject to any severe rule as to liability . . . Hence it follows, as held in Henwood v. Harrison, 7 L. R. C. P., 606, that 'the fair and honest discussion of or comments upon a matter of public interest is in point of law privileged, and is not the subject of an action, unless the plaintiff can establish malice.' "

Kemart attempts to buttress its argument that privilege does not exist in Ohio by urging that the common law is nonexistent there. As to this, in 9 Ohio Jur. 2d, Common Law, Section 1, page 555, it is said:

> "The common law of England, when not inconsistent with the genius and spirit of Ohio institutions, and thus rendered inapplicable by situation and circumstances, has been acknowledged by the courts of Ohio as furnishing the rules of their decisions. And equally important, it is the basis of many statutes of the state, and it is to the common law we must look for legal definitions and judicial ideas in interpreting the federal and Ohio constitutions . . ."

Kemart, stating that the common law doctrine of qualified privilege is, according to Ohio law, neither "sound or wholesome" calls attention to *Westlake v. Westlake* (1878), 34 Ohio St. 621, and *The Post Publishing Co. v. Moloney* (1893), 50 Ohio St. 71, 33 N. E. 921. These cases have nothing to do with the subject in point. In the first of these cases the court, stating it to be the law of the State of Ohio that words imputing a want of chastity to a woman, married or single, are actionable *per se,* refers to the previous unsatisfactory state of the common law in reference to the rights of the wife; and the second holds that a person offering his services to the public as a police officer is not deemed to consent to all imputations, however false or defamatory. Neither involved the defense of qualified privilege and neither purported to stand for the proposition that common law defenses cannot exist in Ohio. *Meyer v.*

*Parr* (1941), 69 Ohio App. 344, 37 N. E. 2d 637, involved absolute privilege, not qualified privilege. We may agree with Kemart that if absolute privileges are to be extended in Ohio, this should be done by the legislature. This is not to say that Ohio does not recognize the doctrine of qualified privilege. That Ohio does is made plain by one hundred years of decisions.

We submit that Kemart has been unable to point out any case holding that under Ohio law good faith is not a complete answer in a case where damages are asked because of a charge of patent infringement, later proved mistaken. We further submit that Kemart has been unable to point out any case holding that under Ohio law the defense of qualified privilege is unavailable in such a case. Treating the instant case as one of unfair competition, we have shown that the Ohio law, as elsewhere, recognizes bad faith to be a *sine qua non* of the cause of action. Treating the instant case as one governed by the personal defamation laws of Ohio we have shown that where, as here, the publication is to interested parties, a qualified privilege exists which rebuts any presumption of implied malice or bad faith, and that to prevail, Kemart must prove actual malice and bad faith.

## III.

**The Finding by the District Court That Appellee Acted in Good Faith and Without Malice and That the Publication of the Charge of Infringement Was Made to Interested Parties and Was Thus Qualifiedly Privileged, Should Not Be Overturned.**

We now turn to the issue of fact upon which the decision below turned. Despite Kemart's argument to the contrary, Judge Mathes found unequivocally that appellee in levelling its charge of infringement acted in good faith and without malice. In Finding of Fact 1-D, Judge Mathes stated [R. 27]:

> "Prior to commencement of the above entitled action, defendant reasonably believed that Marx United States Letters Patent No. 2,191,939 was valid and that it was infringed by the process of plaintiff."

In Finding of Fact 2, he said [R. 27]:

> "This belief was based upon the opinion of experienced, although interested, patent counsel and not upon careless ascertainment of defendant's patent rights."

In Finding of Fact 6, Judge Mathes determined [R. 28]:

> "The publications by defendent were for the purpose and with the intent on the part of defendant to defend its own patent interests, rather than to injure plaintiff's business."

And in Finding of Fact 8, he said [R. 28, 29]:

> "Defendant's out-of-court publications of the charge of infringement, since determined to be false,

were made at a time when defendant reasonably believed the charge to be true, and were made in good faith and without malice, and were made to interested persons."

It is unnecessary to cite the many decisions of this Court bearing on the binding effect of the findings of fact made by a District Court, the decision of which is on review. Unless the findings be clearly erroneous and not supported by substantial evidence, they must be accepted. Indeed, it would appear that on an issue such as good or bad faith, it is especially important that the findings of the trier of fact be accepted. See *Reserve Life Ins. Co. v. Simpson* (9 Cir. 1953), 206 F. 2d 389. Judge Mathes has had this case since its inception. Because of the assignment system in the Southern District of California, he was in charge of the case during the pleading stages, during the preliminary motion stages, during the discovery stages, and at the trial. At the trial he was able to observe the conduct and demeanor of counsel for both sides and the conduct and demeanor of the witnesses for both sides. He conducted proceedings as regards the injunction and the supersedeas bond following his original decision. It was to Judge Mathes that the case was returned after reversal by this Court on the question of infringement. Again, Judge Mathes heard argument by counsel for both sides on the questions of costs, attorney's fees, and Kemart's claim for damages. Finally, when the case was returned to him again he conducted a supplementary trial on the latter issue and on attorney's fees and was again able to observe counsel and the witnesses whereby to evaluate the *bona fides* of the contending parties.

Kemart, however, challenges those findings and would have this Court, on the cold record before it, determine that they should be ignored, asserting that either appellee levelled its charge of infringement at Kemart recklessly or wantonly or knew the charge to be false. We submit that far from lacking substantial evidence to sustain Judge Mathes' findings, the record in this case is convincing to the effect that appellee was entirely justified in making its charge.

The record shows that before ever appellee approached Kemart, it not only had obtained a written opinion from Mr. McCaleb, its patent lawyer, who ultimately tried the patent case and who was himself technically able to tell Mr. Marx of appellee about the Kemart process, but that Mr. McCaleb, Mr. Marx and Mr. Pensinger had discussed Kemart's infringement in Chicago where Mr. McCaleb also gave as his opinion the fact that infringement existed. At that time Mr. Marx himself was familiar with the Berry patents which described the Kemart process, had studied them, knew what the Kemart process constituted, and was of the opinion himself that the Kemart process infringed [R. 176-179, 191, 192; Exhibit RR; R. 287]. Further, as the record and these proceedings show, there was never any doubt as to the real issue in the case or as to the nature of the Marx process and the Kemart process. Kemart understood the processes, appellee understood them, and Judge Mathes understood them. The only question was whether or not the Marx patent claims should be interpreted to cover all processes wherein ultra-violet light illuminated the copy, or whether the claims should be restricted to reflecting such ultra-violet light to the camera so as not to include the Kemart process wherein the ultra-violet light caused fluorescent light to pass

to the camera [R. A. 275-277, 635-659]. On appeal from the original trial, this Court said in *Kemart Corporation v. Printing Arts Research Laboratories, Inc.* (9 Cir. 1953), 201 F. 2d 624 at pages 627 and 628:

> ". . . The testimony in this case was largely expository and descriptive of the elements and operation of the two processes and was not disputed."

In its opinion, this Court made no facual determination contrary to those of Judge Mathes, but rather concluded as a matter of law that the Marx patent claims should be narrowly construed to free the Kemart process wherein fluorescent light rather than ultra-violet light passed from copy to camera.

Kemart, however, not denying that substantial evidence exists to support Judge Mathes' findings and lacking any positive evidence whatsoever of bad faith, points to certain fragmentary bits of evidence from which it would have this Court infer that appellee charged infringement in bad faith. For example, Kemart observes that Mr. McCaleb was president of appellee and from this proposes, in effect, that appellee acted in bad faith in relying upon his advice, supporting its contention by observing that no court in Ohio has held advice of counsel and particularly interested counsel as a defense to a charge of defamation. The difficulty with Kemart's position is that appellee does not defend this case on the ground of advice of counsel as a matter of law. The determination of whether appellee reasonably and in good faith believed its patent to be infringed is a question of fact decided adversely to Kemart by the District Court in view of all the evidence at the trial. There is nothing in the Ohio law or in the cases cited by Kemart that would justify this Court in determining as a matter of law

that Mr. McCaleb's position as president of appellee made mandatory a finding of bad faith.

As a further example, Kemart observes that Mr. Marx instructed Mr. McCaleb to obtain proof of infringement and other information prerequisite to the filing of a suit for direct infringement against some representative user of the Kemart process [R. 147]. These instructions constitute no admission whatsoever that appellee was not familiar with the Kemart process. Knowing how a process operates and preparing formal proofs for use in litigation to show its operation by an incipient defendant are two entirely different things.

As another example, Kemart observes that Mr. Marx on deposition stated that he was only familiar with some phases of the Kemart process; that he had not seen any copy of what purported to be Kemart copy; that the Kemart process reflected ultra-violet light from the drawing; and that it was not until the suit that he actually practiced the Kemart process in accordance with the Kemart literature and materials [R. A. 172, 175, 494, 502]. Judge Mathes did not draw Kemart's desired inference from this testimony, but on the contrary after observing Mr. Marx and Mr. McCaleb at the trial believed Mr. Marx when he testified before him that Mr. McCaleb was technically able to tell Mr. Marx about the Kemart process and that Mr. Marx knew what the Kemart process constituted from the Berry patents [R. 178, 179, 191, 192]. Further, whether or not Mr. Marx had seen any Kemart copy and whether or not he knew that fluorescent light passed from the Kemart copy to the camera is immaterial. The Marx patent did not purport to cover the product of the Marx process. It covered the process itself, and it was, and throughout this litiga-

tion has been, appellee's contention that so long as ultra-violet light only was used to illuminate the Kemart copy, the Kemart process infringed. That claims 5 and 7 were eliminated from the original complaint is likewise immaterial, for these claims are specifically limited to the reflected ultra-violet light.

Finally, Kemart objects to the failure in the charge of infringement to distinguish between the process taught by Kemart in its Berry 2,395,985 patent and its Berry 2,395,986 patent. It is submitted that such a distinction would mean nothing to the trade who knew the process offered by Kemart as the "Kemart Process" [Petition for a Declaratory Judgment, Para. 4; R. 4].

None of the aforesaid furnishes sufficient ground for the conclusion that Judge Mathes' findings on good faith are not supported by substantial evidence. Kemart merely proposes inferences and deductions which Judge Mathes, after having had the opportunity to observe witnesses and counsel, refused to accept. Hence, his findings of good faith must be sustained. Since both the Ohio and general unfair competition laws recognize the defense of good faith, and since this is an unfair competition case, Judge Mathes' refusal to find liability should be sustained.

Recognizing, however, that Kemart now argues this case as a personal defamation case for the purpose of applying the Ohio law of personal libel, Judge Mathes made a further finding. In Finding of Fact 7 [R. 28] Judge Mathes determined:

> "Defendant's publications were directed to the same interested persons to whom plaintiff's publications were directed, namely a consultant to persons in the photo-engraving field; possible infringers and

contributory infringers; and the Executive Secretary of the photo-engraving trade association having an official interest in conflicts among members."

Concluding as a matter of law that Ohio recognizes, as demonstrated above, the doctrine of qualified privilege [Conclusion of Law 6; R. 31], Judge Mathes therefore ruled that even tested in accord with the Ohio laws of personal defamation, Kemart's claim for damages must fail. Kemart does not appear to urge error on the part of Judge Mathes in finding the complained of Ohio publication to have been to interested persons. But Kemart in its brief does urge that the District Court erred in finding justification in Kemart's own publications, objecting to Findings of Fact 4, 5 and 7 [R. 28].

Appellee has offered no plea of justification in the instant case for none is necessary. These findings merely provide additional support for the ultimate findings of good faith. As we pointed out previously, the letter charging infringement Exhibit 29 was first published by Mr. Adams of Kemart to Joe Mertle, found in Findings of Fact 7 to be a consultant to people in the photoengraving industry, not a Kemart employee [R. A. 321; R. 96]. It was in response to Mr. Mertle's questioning that Mr. Marx of appellee showed the letter to Mr. Mertle, and the letter was also shown to Mr. Flader, executive secretary of the Photoengraving Trade Association, and to Messrs. Schmidt and Latimer of the Pitman Company, suppliers to appellee and to Kemart, as the result of questions directed to Mr. Marx about the potential patent litigation [R. A. 321; R. 95, 96, 136-141].

As regards the publication in the trade magazine, the Photoengravers Bulletin, we have shown that nothing was

done by appellee until after the letter, Exhibit 60, which set forth appellee's charge of infringement, was sent out to the entire trade by Mr. Adams of Kemart and after Mr. Adams had caused to be published in the same Photo-engravers Bulletin the same charge [R. 97-99; Exhibit 60; R. 265-267; Exhibit NN; R. 284-287]*. Appellee's subsequent publications in the same Bulletin, Exhibits 34 and 74, added nothing so far as the objected-to charge of infringement already published by Kemart is concerned. As found by Judge Mathes they were for the purpose and with the intent to defend appellee's own patent interests [Finding of Fact 6; R. 28; R. A. 218; Exhibit 34; R. 263-265; Exhibit 74; R. 282].

There is thus no necessity for injecting the doctrine of justification into this lawsuit. This is not a matter of the trading of slanderous statements in the newspapers as occurred in the cases cited on this point by Kemart. Rather, appellee did no more than Kemart had already done, namely, set forth the charge of infringement in a trade publication.

We submit, therefore, that whether tested by the Ohio and general laws of unfair competition or by the Ohio law of personal defamation, Kemart's claim for damages must fail. If treated as a cause for unfair competition, the good faith found by Judge Mathes is an absolute defense; if treated as a libel undr Ohio law, the libel is qualifiedly privileged and Kemart has failed to prove actual bad faith and malice.

---

*The legal effect of these publications in any event would not be governed by Ohio law but rather by the general law.

## IV.

## The Paris Convention Is Not Applicable Here.

After the entry of final judgment in the District Court from which judgment this appeal is taken, Kemart, pursuant to motion under Rule 60 (b) of the Federal Rules of Civil Procedure, for the first time advanced the theory that a broad statement of principle present in the Paris Convention supplants and obliterates not only Ohio law but all the law, state and federal, which deals with the problem of the effect of a charge of infringement, later judicially determined to have been erroneous. Despite the trial, argument, and briefing of its cause on the theory that the case should be governed by the personal defamation law of the State of Ohio, Kemart thus came about full circle, relabeled its asserted cause a cause for unfair competition, and proposed that the Paris Convention, entitled "The Convention for the Protection of Industrial Property of the Union of Paris" (53 Stats. 1748) rendered appellee liable under the constitutional treaty-making power of the Congress.

The Paris Convention is over seventy-five years old and states in Article 10 Bis. (47 Stats. 1807) promulgated in 1925 that among those things which "are to be forbidden . . ." are:

> "2° False allegations in the conduct of trade of a nature to discredit the establishment, the goods or the services of a competitor."

It is this language which Kemart urges entirely supplants the law of all the States as respects unfair competition. Taken at its face value, this general langauge but sets forth a general principle, with which principle no American court, and certainly not this Court, has ever

disagreed. It falls far short, however, of evidencing any intent that would upset the law upon which the decision below is bottomed for the language simply does not provide expressly or by implication that the defense historically recognized in American law to a charge of unfair competition shall be abolished. This would seem obvious in view of the multitude of American unfair competition cases decided since the Convention was readopted in 1934, in which cases Kemart's radical application of that treaty has never been even suggested.

Judge Mathes denied Kemart's motion and we consider his decision to be absolutely compelled by history. Kemart's argument would deny our fundamental concept of *stare decisis.* For seventy-five years since the Paris Convention and indeed since long before that, our concepts of the rights and obligations of those engaged in competitive commerce have been developing and evolving. In the more than twenty years since the readoption of the Convention, case after case involving erroneous charges of patent infringement have been decided by our courts. If Kemart's thesis be correct, this Court was either wrong or oblivious in *Celite Corporation v. Dicalite Co.* (9 Cir. 1938), 96 F. 2d 242. So also were the Courts of Appeals for the Second, Fourth, Sixth, and Eighth Circuits in the cases cited previously in this brief. So also were the various State Courts that since 1934 have ruled on the point at issue. The remarkable result urged for by Kemart cannot be endorsed absent some specific instruction within the Convention which would effectuate such a result. No such instruction is present therein for the Convention merely sets forth generally that with which we may all agree.

We may assume that no special legislation in the United States was necessary to make the Convention effective

here, but this is far from conceding that Article 10 Bis. of the Convention can reach the result argued for by Kemart absent some effectuation by Congress.

As stated in *Vanity Fair Mills, Inc. v. The T. Eaton Co., Limited and John David Eaton* (2 Cir. 1956), 234 F. 2d 633 at page 640:

> "The International Convention is essentially a compact between the various member countries to accord in their own countries to citizens of the other contracting parties trade-mark and other rights comparable to those accorded their own citizens by their domestic law. The underlying principle is that foreign nationals should be given the same treatment in each of the member countries as that country makes available to its own citizens. In addition, the Convention sought to create uniformity in certain respects by obligating each member nation 'to assure to nationals of countries of the Union an effective protection against unfair competition.'
>
> "The Convention is not premised upon the idea that the trade-mark and related laws of each member nation shall be given extraterritorial application, but on exactly the converse principle that each nation's law shall have only territorial application. Thus a foreign national of a member nation using his trade-mark in commerce in the United States is accorded extensive protection here against infringement and other types of unfair competition by virtue of United States membership in the Convention. *But that protection has its source in, and is subject to the limitations of, American law, not the law of the foreign national's own country. . . .*" (italics ours)

Even the language of the Convention itself evidences the intent that Article 10 Bis., if to abolish existing

domestic law, shall be implemented by Congress. Referring to the Convention, Article 10 Ter. provides:

> "1. The countries of the Union undertake to assure to persons within the jurisdiction of other countries of the Union appropriate legal remedies to repress effectively all acts referred to in Articles 9, 10, and 10 *bis*.
>
> "2. They undertake, further, to provide measures to permit syndicates and associates which represent industrialists, producers or traders interested, and of which the existence is not contrary to the laws of their country, to take proceedings in the Courts or before administrative authorities with a view to securing repression of the acts referred to in Articles 9, 10 and 10 *bis*. so far as the law of the country in which protection is claimed permits such action to the syndicates and associations of that country."

The above provisions are prospective in nature and this Court's attention is directed particularly to Article 10 Ter. (1) by which the adopting countries merely covenant to assure appropriate legal remedies to repress the acts referred to in, among others, Article 10 Bis. Indeed, Article 10 Bis., which itself states the principle upon which Kemart relies, provides that *"the following principally are to be forbidden."* (Italics ours).

In contrast is the Treaty ruled upon in *Bacardi Corporation of America v. Domenech* (1940), 311 U. S. 150, 85 L. Ed. 98, cited by Kemart. There the Supreme Court was concerned with the General Inter-American Convention for Trade-mark and Commercial Protection. The court particularly noted at page 159 (311 U. S.) the portion of the Treaty to the effect that its provisions "shall have the force of law in those States in which international

treaties possess that character, as soon as they are ratified by their constitutional organs." The court further recited at length and carefully delineated the provisions of the Treaty setting forth the various rules and regulations relating to the protection of trade-marks. In its decision, the court struck down a provision of the Puerto Rican law which conflicted squarely with the provisions of the Treaty.

We are not urging here any implied exception to or restrictive interpretation of Article 10 Bis. of the Paris Convention. Rather, we propose that the general principle therein set forth simply does not reach the issue before this Court, namely, whether or not good faith and privilege constitute a defense to an asserted cause for unfair competition or libel arising out of a charge of infringement, later judicially determined to be erroneous. Were it otherwise, extraordinary results would flow. The theory presented by Kemart is an all or nothing theory and of necessity requires that Article 10 Bis. be applied as written subject to no exceptions. Thus, under Kemart's theory, it would appear that no effective investigation into suspected infringement could be undertaken by a patentee lest he be accused of conduct in trade amounting to unfair competition; it would appear that in conducting a business in the course of trade an employee of a patent owning company could not suggest infringement by a competitor's product to a fellow employee. Absurd consequences are conceivable outside the patent field whereby the ability of honest, but highly competitive manufacturers and traders to promote their wares would be gravely

hampered. Since the language of Article 10 Bis., if construed as Kemart would have it, admits of no defense, these consequences seem implicit in the position taken by Kemart. Since, however, Article 10 Bis., as written, merely sets forth a general principle and does not purport to define defenses which we may fairly assume must have been intended, we can only conclude, consistent with the view of the Court of Appeals for the Second Circuit in *Vanity Fair Mills, Inc. v. The T. Eaton Co., Limited and John David Eaton, supra,* that the protection afforded is intended to complement American law—not obliterate it.

As we have stated above, we know of no court in the United States which has accorded to Article 10 Bis. the effect argued for by Kemart. Rather, for decades since the adoption of the Convention this Court and the other State and Federal Courts have consistently held that American law determines the defenses available to a charge of unfair competition. The Restatement, Nims and Callman certainly do not consider American law on this subject as nonexistent. The many decisions of our courts were before Congress when it considered the general question of unfair competition under the Paris Convention and the specific question of notices of patent infringement. In neither instance did Congress see fit to place domestic law on a footing consistent with the interpretation of Article 10 Bis. urged for by Kemart. In Section 44 of the Act of 1946 (U. S. Code, Title 15, Section 1126) Congress, in specifically implementing the Paris Convention, made no

effort to abolish the well-established defenses of good faith and privilege. In Section 287 of the Patent Act of 1952 (U. S. Code, Title 35, Section 287) Congress had equal opportunity to limit the rights of patentees in issuing charges of infringement. Not only did Congress fail to change the existing case law, but it made mandatory the issuing of notices of infringement where the patentee had failed to mark the patented article and desired damages.

We reiterate that we do not urge that Article 10 Bis. be ruled subject to implied exceptions. It states in 2° that "False allegations in the conduct of trade of a nature to discredit the establishment, the goods or the services of a competitor" are to be forbidden. If we are to assume that such allegations are to include charges of patent infringement, it does not follow that we need accept the principle *in vacuo*. Since it neither expressly nor by implication purports otherwise, we construe it as complementary to and as generally expressive of American law.

## V.

## The District Court Did Not Abuse Its Discretion in Refusing to Award Attorney's Fees to Kemart.

As regards the award of attorney's fees in patent cases, the law in this Circuit is set forth completely in *Park-In Theatres, Inc. v. Perkins et al.* (9 Cir. 1951), 190 F. 2d 137. In that case, this Court said at page 142:

> ". . . Thus, the payment of attorney's fees for the victor is not to be regarded as a penalty for failure to win a patent infringement suit. The exercise of discretion in favor of such an allowance should be bottomed upon a finding of unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force, which makes it grossly unjust that the winner of the particular law suit be left to bear the burden of his own counsel fees which prevailing litigants normally bear. . . ."

In his Findings of Fact, Judge Mathes found:

> "14. The instant case was not an exceptional case and defendant's conduct before, during and after the trial of the case evidenced no unfairness or bad faith; such conduct was actuated by a reasonable belief in good faith that plaintiff's process was an infringement of defendant's patent.
>
> "15. Neither the conduct of the defendant nor any other equitable consideration makes it grossly unjust that the winner of this patent law suit be left to bear the burden of its own counsel fees, which prevailing litigants normally bear."

We have observed previously the well-settled rule that a Court of Appeals will not upset the findings of the District Court unless such findings be clearly erroneous

and lack substantial evidence to support them. Upon review of a refusal to award attorney's fees in a patent case, we submit that the findings of the District Court are even more binding because there must be an abuse of discretion on the part of the District Court before the reviewing court will interfere.

As with the factual question of good faith, however, Kemart points to parts of the evidence in the record before this Court and from these would have the Court make certain inferences which Kemart urges should cause this Court to rule that Judge Mathes abused his discretion.

As we have pointed out before, the instant litigation was hard fought. The trial on the Marx patent resulted in a holding by Judge Mathes that the Marx patent was valid and infringed. His decision was reversed by this Court but not on the basis of any factual misrepresentations below, but rather on the ground of claim interpretation as a matter of law. We submit that as with the matter of alleged bad faith in connection with appellee's original charge of infringement, the entire record not only fails to provide a basis for a holding of abuse of discretion but affords convincing proof that attorney's fees should not have been awarded.

Kemart's contentions have been dealt with on pages 11 to 14 of this brief in our statement of the case and in Section III of this brief wherein was considered Kemart's argument that appellee made its charges of patent infringement and filed its counterclaim in bad faith. Judge Mathes disposed of each and every of Kemart's contentions in his Findings of Fact 1-D, 2, 6, 8 and 10 through 15, inclusive [R. 27-30].

## Conclusion.

The Supreme Court, this Court and various other Courts of Appeals have pointed out when the occasion demanded how patents would be of little value were the patent owner obliged not to warn those believed to infringe of the consequences of their infringement. In U. S. Code, Title 35, Section 287, Congress has required that notice of infringement be extended present certain circumstances. In Section 284 of the same Title, Congress provides for treble damages for patent infringement and in considering the question of such damages a principal question to be determined is whether or not the infringer was on actual notice of his infringement. It is to Congress that the patent power is delegated, and while we do not propose that Congress has completely preempted this field, the according to the State of Ohio of a principle such as is urged for by Kemart would seem inconsistent with Congressional intent, if not encroachment on the Congressional prerogative. In any event, we submit Judge Mathes' findings as to appellee's good faith and *bona fides* to be manifestly supported by substantial evidence, and we submit that under the law of Ohio and elsewhere and under the law of this Circuit, appellee is neither liable to Kemart for an improper publication of a charge of patent infringement nor for attorney's fees.

Respectfully submitted,

Julien F. Goux,

Leonard S. Lyon,

Leonard S. Lyon, Jr.,

Roland N. Smoot,

*Attorneys for Appellee.*

No. 15,638

In the

# United States Court of Appeals

*For the Ninth Circuit*

---

KEMART CORPORATION,
*Plaintiff-Appellant,*

vs.

PRINTING ARTS RESEARCH LABORATORIES, INC.,
*Defendant-Appellee.*

---

## Appellant's Reply Brief

---

HENRY GIFFORD HARDY
410 Mills Building
San Francisco 4, California

CARL HOPPE
2610 Russ Building
San Francisco 4, California



PARKER PRINTING COMPANY, 180 FIRST STREET, SAN FRANCISCO 5

## INDEX

## TABLE OF AUTHORITIES

### Cases Cited

Pages

## STATUTES AND RULES

OTHER AUTHORITIES

No. 15,638

In the

# United States Court of Appeals

*For the Ninth Circuit*

---

KEMART CORPORATION,
*Plaintiff-Appellant,*
vs.
PRINTING ARTS RESEARCH LABORATORIES, INC.,
*Defendant-Appellee.*

---

## Appellant's Reply Brief

---

Appellant files this brief in reply to the Brief for Appellee. The argument in the Brief for Appellee does not respond to the issues entirely in the order of Appellant's Opening Brief, thereby making exact correlation of the argument difficult. In this brief, therefore, appellant, in an effort to reorganize the issues in an orderly fashion, adopts the order of Appellant's Opening Brief. The chapter headings in this brief follow the order of the chapter headings in Appellant's Opening Brief and the page references below the chapter headings indicate where, in each of the briefs, the corresponding subject matter is discussed.

The abbreviation (AOB. p.....) indicates page reference to Appellant's Opening Brief and the abbreviation (BFA. p. .....) refers to the Brief for Appellee.

**Jurisdiction**

(AOB. pp. 2-3)
(BFA. p. 2)

Appellee correctly points out that the record before this Court does not show that the motion to amend was served timely (BFA. p. 2). Appellant is concurrently filing a motion with the Court asking this Court to permit the District Court to supplement the record by including the proof of service showing that the Motion to Amend was served timely within ten days after entry of the final decision of the District Court on December 19, 1956 (AOB. p. 3, BFA. p. 2).

**Questions Presented**

(AOB. pp. 3-4)
(BFA. pp. 2-3)

There is a dissonance between the parties as to the questions presented on this appeal.

Appellant submits that its question No. 1 properly raises the main question before the Court but accedes to appellee's restatement with the *proviso* that appellant urges the record does not disclose that the persons to whom Mr. Marx published the letter in Ohio were "interested" as that term is used in libel and slander cases, nor does it disclose that the verb "responded" is applicable to appellee's publications of May 1949, (Plaintiff's Exhibit 34, R. 263-265) and June 1950 (Plaintiff's Exhibit 74, R. 282). Appellant's publications occurred in November of 1948 (Plaintiff's Exhibit 60, R. 265-267) and in December of 1948 (Defendant's Exhibit NN, R. 284-286), five months prior to the May 1949 publication and eighteen months prior to the June 1950 publication.

Appellant accepts appellee's statement of questions 2 and 3 if they be taken in conjunction with appellant's questions 2 and 3.

**The Proceedings Below**

(AOB. pp. 4-6)
(BFA. p. 2)

Appellee being satisfied with the review of proceeding below set forth in Kemart's brief (BFA. p. 2), no reply is appropriate or necessary.

**The Evidence**

(AOB. pp. 7-21)
(BFA. pp. 3-14)

Appellee has restated the evidence because it is "not satisfied with Kemart's recitation of the evidence before this Court." (BFA. p. 2). Appellant submits that its original statement of the evidence is adequate and that it objectively presents the record before this Court on appeal. Further, appellant submits that appellee's restatement creates a seeming of substance not borne out by the present record.

One point of diversion between the parties pertains to the infringement opinions of Mr. McCaleb. Appellant, without argument, showed that Mr. McCaleb was the president and one of the directors of appellee and was in charge of the corporate records, formal papers, legal correspondence and patent papers (AOB. p. 8). Appellant later argued that this opinion of interested counsel was not available as a defense (AOB. pp. 62-65). With regard to this opinion, although the evidence does not appear in the record, appellant agrees that Mr. McCaleb was a widely respected and experienced trial lawyer specializing in patent causes (BFA. p. 3).

This contention does not disprove the conceded interest of Mr. McCaleb, nor does it undermine the legal argument that one cannot rely upon his own legal opinion as a defense for otherwise tortious conduct. Appellee also urges that Mr. McCaleb is now deceased (BFA. p. 4). But Mr. McCaleb was still alive at the first

trial, for he conducted it (RA. 79-628). And at the first trial, appellee made no effort to prove the present defense of good faith belief and advice of counsel.

In connection with Mr. McCaleb's opinions, appellee refers several times to Mr. McCaleb's technical ability (R. 192, BFA. pp. 4, 48, 50). Mr. McCaleb's technical ability is not an issue on review before this Court, and indeed appellant concedes that Mr. McCaleb was highly capable. The point is, regardless of how technically able an attorney is, the strength of his opinions must depend upon the facts upon which they are based. The record is barren of any evidence tending to prove what facts were disclosed to Mr. McCaleb at the time he rendered his opinions. Mr. Marx did not recall what he told Mr. McCaleb about the Kemart Process (R. 192). Mr. Goux conceded that he didn't know whether Mr. McCaleb had ever seen Kemart copy (RA. 499) and that Mr. McCaleb would have to "answer for himself" (RA. 499) the question as to when he had first seen Kemart copy. That Mr. McCaleb never did so is no fault of the appellant. The opinion under review supplies its own internal evidence that he had not seen Kemart copy at the time he wrote his opinion. In his opinion, he expressed the view that the Kemart Process would "particularly" infringe Claim 12 of the Marx patent (R. 288). Claim 12 recites:

> "A method of making a half tone negative of a subject having sections absorptive and reflective respectively of ultra-violet light comprising, imaging on the negative the usual half-tone record of the subject and superposing on said record a second image by ultra-violet light only." (RA. 673)

If Mr. McCaleb had had Kemart copy before him, he certainly would have know the fact to be that there were no sections of the Kemart copy that were "reflective" of ultra-violet light as recited in Claim 12. Undoubtedly, Mr. McCaleb's opinion was based in part upon Mr. Marx's early view that "the drawing is prepared so as to absorb ultra-violet light in its tone areas while reflecting

ultra-violet light from its highlight areas" (RA. 529): a view to which Mr. Marx adhered until the trial of the case on October 25, 1950 when he admitted that "ultra-violet light is absorbed in the highlight areas of the Kemart copy" and is "absorbed in the tone areas" also (RA. 273). Thus, the ability of Mr. McCaleb is not in issue here.

Indeed, this very uncertainty as to the facts may have been the consideration which led Mr. McCaleb to warn Mr. Marx and Mr. Pensinger against discussing the controversy with any potential customers of appellee (R. 179, 180, BFA. p. 4); a warning which Mr. Marx promptly ignored when he discussed the controversy with Mr. Paul Schmidt, head of the Pitman Company, one of the largest graphic art supply firms in the country and a firm which handled the products of Kemart as well as the products of appellee (RA. 321, R. 147, BFA. p. 5).

Appellee next contends that Mr. Adams published the charges of infringement when he discussed the infringement letter with Mr. Mertle at lunch (BFA. pp. 5, 6, 7, 52). Appellant submits that when one discusses the problems of a technical subject such as a charge of patent infringement with its "technical adviser" (R. 147) or "technical director" (RA. 786) that there is no publication. So far as the issue of publication is concerned, it is apparent that there is no more significance in the fact that the technical director also worked for other people than there is in the attorney and client relationships, in the fact that an attorney represents other clients.

With respect to the admitted publications by Mr. Marx to Messrs. Flader, Schmidt and Latimer (R. 147), appellee, without directly so stating, infers that Mr. Adams may have initiated the inquiry by its observation that Mr. Adams had "a hazy memory." (BFA. p. 5). To the contrary, the record discloses with reference to Mr. Schmidt that "I know I didn't to him" (R. 138) and that "I am sure I didn't with Mr. Flader" (R. 140). There is no contrary evidence whatsoever. In view of the fact that the letter

specifically stated that "I recommend that all users of the Kemart process, in so far as you are able to identify them, be notified" (Exhibit RR, R. 288), there is a strong inference that the alleged inquiries were initiated by appellee. Otherwise there would have been no point in having the letter at the convention. It will be recollected that Messrs. Marx, Pensinger and Frye were all at the convention and that all three knew of the letter (R. 177, 181, 199). Messrs. Pensinger and Frye did not testify at the trial and Mr. Frye's stipulated testimony does not touch on this letter (R. 171-172).

Appellee urges that the record is "absolutely barren of any activity" by it "which could be considered an attack on the business of Kemart Corporation." (BFA. p. 6). Appellant in reply points to the letter of October 6, 1948, which was published at least four times at the convention (Defendants' Exhibit R.R., R. 287, R. 147); the May 1949 trade publication (Plaintiff's Exhibit 34, R. 263-265); and the June 1950 trade publications (Plaintiff's Exhibit 74, R. 282, R. 122). All three publications attack the plaintiff's business of licensing the Kemart Process (RA. 26, Finding 1-D., R. 27).

Appellee then complains that Kemart published the charge and imputes impropriety to Kemart in its trade publication (BFA. pp. 6-8). We have shown that there is not a word of untruth in the publication (AOB. 11-12) and that the publication is legally of no defensive value (AOB. pp. 65-70). Appellee argues that the letter was false because "even today not one iota of evidence exists establishing that appellee or its people had even discussed the matter with users of the process or customers" (BFA. p. 8). On the contrary, the record does show affirmatively that the matter was discussed directly with persons having direct contact with customers and prospective customers, e.g., Messrs. Flader, Schmidt and Latimer; it does disclose that litigation was threatened implicitly in the October 7, 1946 public letter (Defendant's Exhibit RR., R.

287), and it does disclose that litigation was threatened directly in the November 10, 1948 private letter (Plaintiff's Exhibit 29, RA. 745-747).

At page 8, appellee urges that its May, 1949 publication "truthfully and factually reports the status of the suit." Appellant does not so read the publication. With respect to the status of the suit, the headline for the advertisement states "Kemart Licensees Liable to Lawsuit" (R. 263). The language "liable to suit for direct infringement" is repeated in the publicity news release (R. 264). The fact is that the trial court merely denied a temporary injunction (R. 263). It did not adjudicate liability until January 31, 1951 (RA. 53-56). Appellee further states that the publication "advised the intention of appellee of protecting its interests" (BFA. p. 8). The publication actually advised that the intention of appellee was "for the protection * * * of licensees of the Fluorographic Process, and in its own interests." (R. 263). It also admittedly appears that an added intention of the publication was to justify an award for treble damages (BFA. p. 63). In fact, at the end of the first trial the decision on any prayer for increased damages was specially reserved until after the determination of the amount of damages (RA. 56).

Appellee states that the May, 1949 publication "added nothing" to the November, 1948 publication of appellant (BFA. p. 8). On the contrary, it added the personal imputation directed to Kemart Corporation that "our competitor * * * has simulated our patented process" (R. 265); and it confirmed and emphasized its threat to institute a suit "against a Kemart licensee very promptly" (R. 265). In addition, it republished the false infringment charges which had lain dormant for so many months.

Also at page 8, appellee states that "Kemart had undertaken a campaign to appropriate appellee's licensees unto itself." This goes beyond the record. It actually discloses that Kemart sales efforts were directed to the entire photoengraving industry. Typical examples of Kemart advertising include Defendant's Exhibit LL

and MM (RA. 783-803). Neither makes any effort to appropriate appellee's business. As a matter of fact, appellee and its licensees are not even mentioned in the advertising. Even the November 1948 publications are not directed to appellee's business, but they are directed to "Kemart Licensees" and potential licensees (Plaintiff's Exhibit 60, R. 265-267, Defendant's Exhibit NN, R. 284).

Continuing at page 8, appellee argues that "it was incumbent upon appellee to protect its property." Appellant can not follow the thread of appellee's argument. Appellant never did attack the property of appellee, other than as a subordinate issue in the privacy of this case. Publicly appellant asserted merely that it did not infringe the patent and that appellee's threats were false in fact—two assertions with which there can be no genuine dispute. Neither claim was directed to appellee's title to its Marx patent or to its title to the Fluorographic process it was licensing to the trade. As a matter of record in this case, appellant never did seek to destroy the patent of appellee, except as an incident to a determination of non-infringement, nor did it seek to destroy appellee's licensing system. Appellant has consistently adhered to the claim that it did not infringe the patent. And this Court commented that "in oral argument counsel for appellant stated that appellant had no interest in the question of validity of the patent if it should be held uninfringed." (201 F.2d 624 at 634). Hence, there was no genuine need for appellee to protect its property. And even if there were, appellee could have truthfully published that it was the owner of the Marx patent and that the Marx patent covered its Fluorographic Process. It did not have to go further and state falsely that appellant and the Kemart Process infringed its patent in order to protect its property interests in the Marx patent (see AOB. p. 62).

At page 9, appellee contends that it did not approach customers "either orally or by letter." Appellant has shown that appellee published the charges at the Cleveland convention and in the trade papers. Further approaches orally or by letter are not necessary to

complete the tort. Appellee attempts to brush Plaintiff's Exhibits 62, 65-70, 72 and 73 aside implying that they relate to appellant's publications of November 1948 (BFA. p. 9). The record does not bear out the contention. The responses start on May 18, 1949 (Plaintiff's Exhibit 62, R. 269), long after November 1948 but immediately after the May 1949 publication of appellee. Many of them make express reference to appellee's threats (Plaintiff's Exhibit 62, 64, 65, 66, 67, 69; R. 269, 271, 272, 273, 275, 277; see also R. 135). None of them expresses the slightest concern over appellant's November 1948 publication.

At page 9, appellee urges that the response to Kemart's inquiry for "communications or notices you may receive" from appellee "was nil." (Plaintiff's Exhibit 60, R. 146). A sound reason for this is apparent. Appellee, instead, published threats in trade papers in May 1949 and again in June 1950 (Plaintiff's Exhibit 34 and 74, R. 263-265, R. 282). And Kemart did bring forth the responses to these publications (Plaintiff's Exhibits 62, 65-70, 72 and 75). Moreover, following the June 1950 publication (Plaintiff's Exhibit 74), there was an actual reversal and downward turn in the sales curve of Kemart (R. 133).

Appellant takes umbrage to appellee's taunt that "even if Mr. Adams testimony may be believed" (p. 10). Such a remark seems to be out of place for one whose only witness testified under oath that the Kemart drawing "is prepared so as to absorb ultra-violet light in its tone areas while reflecting ultra-violet light from its highlight areas" (RA. 529), whereas he later admitted that "ultra-violet light is absorbed in the highlight areas of Kemart copy" and is "also absorbed in the tone areas" (RA. 273); that he "attended Dartmouth College" and was at "Dartmouth for only one year, or less than a year, and studied for a regular Bachelor of Arts Degree" (RA. 112, 235), whereas he later admitted that was "absolutely wrong" (R. 195); that his course of study at University of Pennsylvania was "toward a Bachelor of Arts Degree" and included the scientific subject "chemistry" (RA. 235), whereas

the University of Pennsylvania stated "he was never registered for any work in chemistry and physics" (RA. 765-766); that he "dug through files of the Santa Barbara papers and others to find these examples" on defendant's misleading Exhibit J (RA. 133), whereas he later admitted he was not the one who obtained the pictures on this exhibit (R. 193-194); that he received the letter of October 6, 1946 in the mail at Santa Barbara (R. 190-191), whereas this was impossible because the letter was displayed at Cleveland, Ohio on October 7, 1946 (R. 94); and that "Mr. McCaleb warned us very strongly that we were not to discuss the issues of the case with anyone who was a potential customer of ours" (R. 180), whereas the contemporaneous letter from Mr. McCaleb said "I recommend that all users of the Kemart Process [all potential customers of appellee], in so far as you are able to identify them, be notified of the existence of your aforesaid patent No. 2,191,939, its nature and coverage and their infringement thereof." (R. 204).

Mr. Adams, on the other hand, made only two misstatements, on both of which he volunteered corrections e.g. he corrected his earlier testimony as to the date when the reversal of sales curve took place pointing out that "the actual turn down in net results didn't occur until the middle of 1950" (R. 133), whereas he had earlier testified that Plaintiff's Exhibit 34 "certainly reversed that trend" (RA. 327). He also corrected the time of publication of the book, "Modern Photoengraving," which Mr. Mertle and Mr. Flader brought out prior to the 1946 convention (Compare R. 132 and R. 96). Appellant therefore urges that the imputations that Mr. Adams was not to be believed should be disregarded.

At page 10, appellee urges that "the attack by Kemart seems to be leveled largely at Mr. McCaleb." This is not so. Appellant has never urged that Mr. McCaleb imposed upon, deluded, misled or oversold the Court. Appellant has urged and the Court found that Mr. Marx was not 100% honest in his testimony under oath but

this is no imputation on counsel. It is impossible to assay what the result at the first trial would have been if Mr. Marx had testified entirely within the truth.

The main crux of appellee's argument that the misrepresentations were immaterial lies in the contention that the case on appeal turned entirely upon a matter of law (BFA. pp. 10-11). In a limited sense, this is true: for this Court relied upon the documentary evidence when it concluded as a matter of law that there was no infringement. But in the Court below, the question of infringement was treated as an issue of fact (see Findings of Fact X, XII and XIII, RA. 48-49). Obviously, since Mr. Marx was defendant's only witness and since the documentary evidence showed only non-infringement, the District Court of necessity must have relied upon his oral testimony. Otherwise there was no underlying evidence whatsoever to support the determination of infringement.

Finding X recites that "The aforesaid Kemart Process includes all of the steps of, and is described by, and embodies the invention of, each and every of claims 1, 2, 3, 4, 6, 8, 9, 10, 11 and 12 of the Marx Patent No. 2,191,939" (RA 48).

Finding XII recites that "The aforesaid Kemart process proceeds in substantially the same manner as does the method or process of the Marx Patent No. 2,191,939 to accomplish the same result" (RA. 48).

Finding XIII recites that "The dot eliminating light * * * in the Kemart Process * * * is the full equivalent of ultra-violet light reflected unmodified from the highlight areas of the drawing for the same purpose" (RA 48-49).

Appellee made no effort to support Finding X on Appeal No. 12,948, other than to cite it at page 4 of its brief on appeal. Finding X was set aside completely and with certainty in this Court's determination:

> "* * * we find that the Kemart Process involves use of a different kind of copy, a different kind of dot-eliminating

> light, the wholly different phenomenon of fluorescence, and a different kind of photography. These differences go to every feature of the Marx Process alleged to be novel." (201 F.2d 630).

In support of Findings XII and XIII appellee contended "that the two methods were recognized photographic equivalents." (201 F.2d 624). This Court held that "Assuming that this would sustain a finding of equivalence of the two processes here in question, there is no evidence to support the contention" (201 F.2d 624).

Appellee sloughs off the balance of the dispute directed to malice by urging that Kemart's examples are "certain incidents common to hard fought litigation." (BFA. p. 11). Appellant does not believe that it is common for a party to refuse to answer questions concerning the merits of the case on pre-trial depositions (AOB. pp. 15-16, BFA. pp. 11-12); for a party to file a patent infringement counterclaim charging his opponent with patent infringement without prior factual investigation (AOB. pp. 15-16, not answered in BFA.); for a party to misrepresent its expert and the prior art, even immaterially (AOB. p. 19, BFA. pp. 12-14); for a party to press supersedeous to such an exorbitant extent that his opponent might be "forced into bankruptcy" (AOB. p. 20, BFA. p. 14), or be required to enter into burdensome extra judicial financial arrangements; or for a party to oppose a modification of the injunction to eliminate procedures, clearly non-infringing even on the then determined construction of the claims.

Appellant submits that appellee casts a most unfavorable and unjustifiable cloud over all litigation and the conduct thereof when it urges that such incidents are common to hard-fought litigation.

In summation as to the evidence, appellant submits therefore that there is no sound basis for appellee's expressed dissatisfaction with Kemart's recitation of the evidence before this Court (BFA. p. 2) and that appellant's statement (AOB. pp. 7-21) is

accurate and properly presents the evidence introductory to a consideration of the legal issues.

**Argument**

**(AOB. pp. 22-75)**
**(BFA. pp. 15-62)**

This case represents a conflict between two well recognized civil rights.

Appellant bases its claim upon its property rights in the Berry Patents and in its business of licensing others under its property rights and claims the right to be free from injury to its business and reputation.

Appellee bases its defense upon its property rights in the Marx Patent and upon its business of licensing others to use this property.

None could deny that both conflicting rights are entitled to the protection of the Courts.

The difficulty arises when both parties insist upon the protection of their own rights and in the course of the assertion of such rights one of the parties is injured. In the case at bar, appellee, in the assertion of its claimed rights, has injured appellant.

Appellant claims that it is entitled to a remedy for the injury done to its business and reputation arising by virtue of appellee's conduct in assertion of the claimed rights of appellee.

Appellee, in its effort to make justice run up stream has taken the position that its property rights are paramount to the rights of appellant in its reputation and in the reputation of its business. This is the view which Circuit Judge Clark in speaking for the Court in *Black & Yates v. Mahogany Ass'n* (3 Cir. 1941), 129 F.2d 227 at 229 referred to as "a Shakespearean view."

Appellee overlooks the principle that everyone shall so use his own property as not to injure another. This rule is of ancient origin and is of universal application, regardless of what conflict

of law rule applies or what property interests are involved. See *Hitchman Coal & Coke Co. v. Mitchell* (1917), 245 U.S. 229, 254; *Delaware Etc. Railroad v. Converse.* (1891), 139 U.S. 469, 473; *Fertilizing Co. v. Hyde Park* (1878), 97 U.S. 659; *Hay v. Norwalk Lodge B.P.O.E.* (1951), 92 O.A. 14, 23, 109 N.E. 2d 481; *Cincinnati and Suburban Telephone Co. v. Eadler* (1944), 75 O.A. 258, 260, 61 N.E. 2d 795, 797; *Philadelphia Fire & Marine Ins. Co. v. Hirschfield Printing Co.* (1943), 73 O.A. 27, 29, 53 N.E. 2d 827, 828; and *California Civil Code,* Sec. 3514.

In espousing its view, appellee seeks to pigeon-hole this case into one of two very limited legal formulae, i.e. straight non-defamatory unfair competition or in the alternative, a form of disparagement of property or trade libel akin to slander of title. In so doing, appellee criticizes appellant for urging at the same time that this case constitutes both libel under the Ohio Law and unfair competition under the Paris Convention (BFA. p. 15). Appellee urges that in so arguing "Kemart thus came about full circle" (BFA. p. 54). The difficulty with appellee's argument is that one cannot pigeon-hole this case. It does not involve a single tort, but it involves multiple torts all cooperating and contributing to make appellee's conduct wrongful. Appellant does not ask for damages accruing from any particular and single kind of tort but asks only for "damages resulting to plaintiff from defendant's wrongful acts and doings" (R. 9). As in *Northern Co. v. Grand View Ass'n.* (1906), 203 U.S. 106, 108, appellant's "* * * choice of law was not an election but an hypothesis. It expressed the supposition that law was competent to give a remedy * * *".

The difficulty in applying any particular label to the exclusion of others in the case at bar is demonstrated by the several different types of closely related torts encompassed in appellee's series of publications.

A *first* aspect of this case is that the defendant published false allegations that "the Kemart Process * * * plainly falls within

nd is covered by a number of the patent claims" and that "even f the Kemart neutralizer were not absorptive of ultra-violet light, he Kemart Process would still infringe your herein discussed patent, and more particularly Claim 12, thereof," (Defendant's Exhibit RR., R. 287 at page 288); and that "the Kemart Process of making highlight halftone negatives is charged to infringe the Fluorographic patent" (Plaintiff's Exhibit No. 74, R. 282). These charges admittedly are not directed to appellant. They are directed to its property, i.e. The Kemart Process. As such, these charges meet the traditional common law definitions of slander of title. This is the phase which appellee emphasizes. Under the common law, malice would be required as to this phase. Under the Treaty of Paris, the conduct is actionable, as between competitors, without regard to intent or scienter.

A *second* aspect of this case is that appellee published false allegations that "The Kemart Corporation, sponsor of the Kemart Process, is contributorily infringing such patent when it furnishes infringers thereof with supplies, equipment and instructions facilitating their practice of such Kemart Process." (Defendant's Exhibit RR., R. 287); and that "our competitor * * * has simulated our patented process * * *" (Plaintiff's Exhibit 34, R. 263 at R. 265). This is the phase appellant emphasizes. These charges are a personal libel directed to Kemart itself. As such they constitute libel *per se* under the rule of *Watson v. Trask* (1834), 6 Ohio 531. If the charges are false the law infers malice.

A *third* aspect of this case is that appellee published false allegations that anyone who practices the Kemart Process infringes several claims of the Marx patent; that it recommended that all users of the Kemart Process be notified of their infringement thereof; that it stated falsely that any maker of half-tone negatives from wash drawings by the Kemart Process is liable to suit for direct infringement; that it threatened suit for infringement against a Kemart licensee and that it reminded all licensees of such

litigation (Defendant's Exhibit RR., 287; Plaintiff's Exhibit 34, R. 264-265 and Plaintiff's Exhibit 74, R. 282). Of all three forms of conduct herein referred to, Mr. Justice Holmes thought this to be the most damaging in *American Well Works v. Layne* (1916), 241 U.S. 257, 259 (See AOB. pp. 23, 26 and 60).

A *fourth* aspect of the case is that the conduct of which complaint is made is between competitors and as such constitutes unfair competition in addition to the usual torts. If none of the elements *first, second* and *third* above is present, the authorities agree that malice is an essential element. If one or more of elements *first, second* and *third* is present, there is a conflict of authority as to whether actual malice is essential. If falsity is present, then the Law of Ohio as set forth in *Henry Gehring Co. v. McCue* (1926), 23 O.A. 281, 154 N.E., 171 and *McCue v. Wells* (1929), 121 O.S. 53, 166 N.E. 892; the general law as set forth in *American Well Works v. Layne* (1916), 241 U.S. 257, *E. Edelmann & Co. v. Triple-A Specialty Co.* (7 Cir. 1937), 88 F.2d 852, and *International Industries & Development v. Farbach Chemical Co., Inc.* (S.D. Ohio 1956), 145 F. Supp. 34, affirmed (6 Cir. 1957) 241 F.2d 246; and the treaty law as set forth in the Treaty of Paris, all agree that actual malice is not an essential element of a claim for damages.

In its effort to impress upon this case a rigid rule of law favorable to its position and adopted by the District Court below, appellee has made a hodgepodge of non-Ohio cases, text books, and dictum from Ohio cases and has thrown them all into one legal kettle from which all contrary authority has been omitted. From this "stew" appellee has drawn the simulated rule that the Courts of the United States are in accord that no tort is involved unless bad faith be shown (BFA. p. 20). Appellant submits that there is no such universally applied general rule.

Appellant unravels the authorities and discusses the argument in the order appearing in Appellant's Opening Brief. Appellant

emonstrates the divergence between the separate and distinct iew points in order finally to dispose of the conflict and to arrive t the applicable rules of law. Even though such analysis might ppear somewhat tedious, it seems to be the best way of reaching he issues.

**he District Court Erred as a Matter of Law on ssue of Malice and Good Faith**

**(AOB. pp. 25-36)**
**(BFA. pp. 24-28)**

Appellant's first point was that the cases which the District Court cited in support of its proposition as to qualified privilege under the Law of Ohio did not support the controlling conclusion of law (AOB. pp. 25-36). Appellee does not answer this point directly. Appellant, therefore, assumes that the proposition as stated is conceded and that one must go outside of the authorities upon which the District Court relied in order to justify the defense. This assumption is borne out by an analysis of the two briefs.

Appellant showed that *Henry Gehrig Co. v. McCue* (1926), 23 O.A. 281, 154 N.E. 171, did not support the conclusion of the District Court. The complaint there under review disclosed no malice, the only portion of the opinion bearing upon the instant issues recited that "allegations are made that the conduct of the defendant had no warrant or proof, but was based upon false statements respecting the patent" (AOB. pp. 27-28) and the Ohio Supreme Court later in *McCue v. Wells* (1929), 121 O.S. 53, 166 N.E. 892, refused to give any legal effect to the defense that the letters charging infringement "were written and sent in good faith and upon advice of competent counsel skilled in such matters." (AOB. p. 28).

Appellee's main point is that "it is idle to concern ourselves with the pleadings and briefs of the parties to that litigation" (BFA. p. 28). Substantially the same contention as that advanced here by appellee was overruled in *Bingham v. United States* (1935), 296

U.S. 211 (Cited in appellant's brief, page 30, and not distinguished by appellee). In that case, the Supreme Court looked to the prior briefs on one of its own decisions in order to interpret its own prior decision. The Court particularly pointed out, page 218:

> "* * * both in the appendix to the government's brief and in the main brief of the taxpayers, the attention of the court was distinctly called to all of the provisions which are now invoked. * * * It fairly must be concluded that in reaching that result these provisions were considered, and that such of them as bore upon the problem, there as well as here presented, were found not to require a different determination. We think the points now urged by the government were decided in the Frick case, and find no reason to reconsider them."

By the same token, appellant submits that the defense that letters falsely charging infringement were written and sent in good faith and upon advice of competent counsel skilled in such matters was decided adversely in the *McCue* case and that there is no reason to reconsider this defense.

Appellee's argument that "the court merely ruled that bad faith had been sufficiently alleged" (BFA. p. 28) virtually concedes that appellant is entitled to recover, if *McCue* applies. The court in *McCue* determined that the allegations there made (which are substantially the same as the facts found by the District Court in the case at bar), warrant a recovery of damages. In particular, the court said, 23 O.A. 284:

> "* * * Allegations are made that the conduct of the defendant had no warrant or proof, but was based upon false statements respecting the patent. It is alleged that accusations resulting in damage are false, and it is further alleged that these actions and conduct resulted in depriving plaintiff of customers and otherwise injuring it. If these allegations are susceptible of sufficient proof, under the authorities a recovery may be had based upon the doctrine of 'unfair competition,' * * *"

The fact that the Court gave the cause of action the label of "unfair competition" does not change the character of the operative facts. No matter what the label may be, the facts found actionable in *McCue* have been found present in the Findings of the District Court in this case. We note the substantial similarity between this 1926 determination of the Ohio Court of Appeals and the 1931 adoption of Article 10 Bis in the Treaty of Paris (AOB. p. 46). *McCue* thus demonstrates that Ohio is a progressive state on the instant legal issues.

It is most significant that the only actual allegation even touching upon the issue of good or bad faith is the allegation that defendant threatened customers of plaintiff "with litigation and falsely accusing the plaintiff of infringing the letters patent of defendant" (R. 297). If, as pointed out in appellee's brief, page 28, the Court merely ruled that bad faith had been sufficiently alleged, then the decision stands for the proposition as stated by appellant, i.e. that a false accusation of infringement of letters patent constitutes actionable tort under the Law of Ohio.

Appellant distinguished the next cited authority of *Oil Conservation Engineering Co. v. Brooks E. Co.* (6 Cir. 1931), 52 F.2d 783 (AOB. pp. 31-32) because that case did not involve the right of a plaintiff to damages and because the charges of infringement were not actually false in that case. Appellant also pointed out that in *Oil Conservation,* the Court recognized that where the slanders are not in bad faith—that is not malicious, and are not working destruction of property or property rights, then there is a remedy at law. Appellee's discussion of *Oil Conservation* at three places in its brief (BFA. pp. 24, 25, and 26) merely parrots dictum from *Oil Conservation* and does not respond to appellant's points of distinction. The Court refused to extend *Oil Conservation* to an action for damages, it having been cited without avail in the petition for rehearing (R. 64) filed in *International Indus. Develop. v. Farbach Chem.* (6 Cir. 1957) 241 F.2d 246. The

points of distinction, appellant submits, are substantial and they stand proved.

Appellant next showed that *Alliance Securities Co. v. De Vilbiss Mfg. Co.* (6 Cir. 1930), 41 F.2d 668, did not support the finding of the District Court in that in *Alliance Security* there were no false imputations of patent infringement (AOB. p. 32). Appellee's references to *Alliance Securities* (BFA. pp. 24, 25) do not respond to appellant's distinctions.

We further point out that *Alliance Securities Co. v. De Vilbiss Mfg. Co.* (6 Cir. 1930), 41 F.2d 668 is not a particularly strong decision. The majority of the Court refused to follow *Alliance Securities* in *International Indus. & Develop. v. Farbach Chem.* (6 Cir. 1957), 241 F.2d 246 where the case was cited both in support of the dissenting opinion of Circuit Judge Stewart (241 F.2d 248) and on petition for rehearing (R. 64). Moreover, in *Black & Yates v. Mahogany Ass'n* (3 Cir. 1941), 129 F.2d 227, the Court of Appeals, speaking through Circuit Judge Clark, expressed a preference for the lower court decision stating that it stood for the better reasoned rule (See 129 F.2d 231, footnote 23).

Appellant next cited *American Ball Co. v. Federal Cartridge Corporation* (8 Cir. 1934), 70 F.2d 579, which case was cited by approval by this Court in *Celite Corporation v. Dicalite Co.* (9 Cir. 1938), 96 F.2d 242, at page 250 and in *Metro-Goldwyn-Mayer Corporation v. Fear* (9 Cir. 1939), 104 F.2d 892. Appellant urged that *American Ball* showed that appellant's distinction of *Oil Conservation* and *Alliance Securities* had been afforded sound judicial recognition (AOB. pp. 32-33). Appellee makes no response to this argument being content with the didactic statement that the case in no way supports Kemart's argument (BFA. pp. 41-42). Appellant submits that the point stands confessed that *American Ball* supports the proposition that "if the patentee should fail to establish his rights as claimed by him * * * he might be subject to an action for damages (because of such false, though honestly believed, statements) on the part of the one mistakenly prosecuted for infringement * * *". (70 F.2d at 582)

Appellant next showed that the decision below was not supported by *International Industries & Development, Inc. v. Farbach Chemical Co.* (S.D. Ohio, 1956), 145 F. Supp. 34, particularly since the Court of Appeals in that case on review in *International Industries and Development Inc. v. Farbach Chemical Co.* (6 Cir. 1957), 241 F.2d 246, had held recovery proper where the issuance of the notice of infringement was done in implied malice in law if not in actual malice and in bad faith constituting unfair competition. (AOB. pp. 33-36). Appellee's response consists of a repetition of the findings of fact and conclusions of law in the District Court (BFA. pp. 26-27) together with its own unique revision of the opinion of the Court of Appeals (BFA. pp. 27-28).

With respect to the findings of fact and conclusions of law, appellant cannot see how they help appellee. If anything, *International Industries* is a weaker case for the putative infringer than is the case at bar. In that case, the letters merely "had the effect of indicating that defendant was an infringer of plaintiff's patents." (BFA. p. 26), whereas in the case at bar the publications came right out and said that Kemart, Kemart's customers, and Kemart's process all were in infringement of the appellee's patent. But more important than that, finding 7 recites that "plaintiff's failure to introduce evidence at the trial to support its charge of infringement conclusively establishes bad faith and malice * * *" (BFA. p. 27). In the case at bar, this Court found it to be a fact that "there is no evidence to support the contention" that the methods of appellant and appellee were "recognized photographic equivalents" (201 F.2d 630). This covered one phase of the Kemart Process, to wit the wash drawing phase. And counsel for appellee frankly conceded that "there is not a thing in this record" about the Kemart Process as represented by the Berry Patent 2,395,985, which covers the highlight white phase of the Kemart Process (RA. 313-315). If the patentee's failure to introduce evidence at the trial to support a charge of infringement "conclusively" estab-

lishes bad faith and malice under the rule of *International Industries* then the same rule should also conclusively establish bad faith and malice within the record of the instant case.

So far as appellee's revision of the opinion in *International Industries* is concerned, appellant notes that the three dots appearing in the quotation, line four from the bottom (BFA. p. 27), eliminate the heart of the opinion to wit, that the issuance of the notice of infringement in that case was done "in implied malice in law, if not in actual malice." Argument should be unnecessary to support the conclusion that the words quoted and those omitted in appellee's brief make the sense of the Court's decision seem to be the exact contrary of what it actually was. Appellant submits that the opinion should be considered as written and not as rewritten by counsel.

With respect to the remaining authorities, appellant pointed out that each is distinguishable in that not one of them purports to announce the law of Ohio (AOB. p. 36). Appellee does not respond to this argument.

Appellant, therefore, submits that the Conclusion of Law No. 5, (R. 30) is not supported by the legal authorities upon which the District Court relied (R. 22) and that appellee's counterargument has not sustained the determination of the District Court in this regard. We now show that appellee has not found any controlling authority supporting the defense.

**The Ohio Case Law Negates the Defense of Good Faith**

**(AOB. pp. 37-40)**
**(BFA. pp. 17, 24-34)**

In urging that the Ohio Case Law negates the defense of good faith, appellant has shown that the publication of false charges of patent infringement is actionable *per se* as a matter of law without proof of malice and without regard to the question of good faith. (AOB. pp. 37-40).

The historical starting point of the Ohio case law is *Watson v. Trask* (1834) 6 Ohio 531. Appellee breaks its discussion of *Watson v. Trask* into two segregated portions (BFA. pp. 17-18 and 29-34) sandwiching later authorities, both directed to the issue and not directed to the issue, in between. Since *Watson v. Trask* could not possibly have been decided in the light of authorities coming along later in time, we review the case as if it were written upon a fresh slate, as it indeed was. As appellant views *Watson v. Trask,* it is the vanguard of "the better reasoned cases" to which Circuit Judge Clark referred in *Black & Yates v. Mahogany Ass'n* (3 Cir. 1941), 129 F.2d 227, page 231 footnote 23.

In the first place, appellee states that *Watson v. Trask* is the "principal, and indeed only, case upon which Kemart directly relies." (BFA. p. 17). This is not accurate. We rely upon *Watson v. Trask* directly to support the proposition that it is a libel to charge a man with infringing a regularly granted patent, and that the law infers malice where the words are false (BFA. p. 37); we rely upon *Henry Gehring Co. v. McCue* (1926), 23 O. A. 281, 154 N.E. 171 and *McCue v. Wells* (1929), 121 O. S. 53, 166 N.E. 892 directly to show that the existence of malice and absence of good faith are not essential elements in appellant's case, and to show that it is no defense that letters which charged infringement were written in good faith and upon advice of competent counsel skilled in such matters (AOB. p. 39, 25-31). And, if the law of Ohio be held not applicable, we also rely directly upon *International Industries & Development v. Farbach Chemical Co., Inc.* (S.D. Ohio 1956), 145 F. Supp. 34, affirmed (6 Cir. 1957) 241 F.2d 246, and upon the authorities cited in Appellant's Opening Brief, pages 58-62 in support of the propositions (1) that if the patentee fails to establish his rights as claimed by him, he then is subject to an action for damages, because of such false, though honestly believed, statements, by the party mistakenly prosecuted for infringement, and (2) that a notice of infringement is action-

able if it is done with malice in law which is implied from the publication of a false charge of infringement.

Appellee's approach to *Watson v. Trask* is a two pronged attack of belittling the case because of its age and limiting it strictly to its facts because appellee does not like the holding of the headnote.

Appellee's main point is that *Watson v. Trask* was decided over one-hundred years ago, at a time well before the legal concept of unfair competition in business had matured (BFA. p. 17). Appellee disparages it as "this venerable case" (BFA. p. 17). Shepard's Citations makes it clear, venerable as the case may be, that all of the Courts of Ohio, from the highest to the lowest, treat it with true veneration and have cited it from the time of its pronouncement to the present day. Because of its age, it is clear that *Watson v. Trask* was decided as a case of first impression, and that the reasoning of the Court was unimpeded by the extremely legalistic and Shakesperian view applied in the case of *Wren & Another v. Weild* (1869) The Law Reports 4 Q.B. 730 later overruled by the British Parliament (See AOB. pp. 56-60). It was attuned to the liberal thinking of this country.

Appellant submits that the age of *Watson v. Trask* (1834), 6 Ohio 531, does not detract an iota from its worth. *Clay v. Security Trust Co.* (Court of Appeals of Kentucky, 1952,) ..... Ky. ....., 252 S.W. 2d 906, 908; *Ray v. Denver* (1942), 109 Colo. 74, 81, 121 P.2d 886, 889; *Central Trust Co. v. Falck* (1917), 177 App. Div. 501, 164 N.Y.S. 473, 477-478, affirmed sub. nom *Central Trust Co. of New York v. Rogers* (1918), 223 N.Y. 705; 120 N.E. 859; and *Rowe v. Richards et al* (1915), 35 S.D. 201, 205; 151 N.W. 1001.

On the facts, appellee's first criticism of appellant's discussion of *Watson v. Trask* is that "Kemart has neglected to recite the published libel and has neglected to set forth enough of the opinion to enable this Court to properly evaluate it." (BFA. p. 29). Appel-

lant, on the other hand, bases its discussion upon the headnote and those portions only of the opinion which touch upon the headnote. Appellee feels that headnotes are but traps for the unwary (Appellee's Brief, p. 33). This may be true as a general proposition in most states, but it is untrue of Ohio decisions. In Ohio, the headnote contains the law of the case. As stated in *State v. Edmondson* (1913), 89 O.S. 93, 105 N.E. 269, 273: "* * * Where the judge writing an opinion discusses matters or gives expression to his views on questions not contained in the syllabus, it is merely the personal opinion of that judge."

Nonetheless, giving full effect to the distinctions which appellee alleges, *Watson v. Trask* still it not distinguishable even in fact from the instant case upon material matters.

One line of alleged distinction is that *Watson v. Trask* is a personal defamation case and thus, is not in point here (BFA. p. 29, 34).

If by this, appellee means that Watson was an individual and Kemart is a corporation, the distinction is without legal merit. *Watson v. Trask* has been cited with approval and applied in cases involving defamations against corporations in *Cincinnati Street Railway Co. v. Cincinnati Daily Tribune Co.* (1900), 10 O.D. 281, 282 and in *Union Central Life Ins. Co. v. Mutual Benefit Life Ins. Co. et al.* (1877), 5 Dec. Rep. 521, 532. Even without the citation of *Watson v. Trask* the same principles were applied in *Henry Gehring Co. v. McCue* (1926), 23 O.A. 281, 154 N.E. 171 where the plaintiff was a corporation. Moreover, the District Court below found that the legal principles constituting the law of libel and slander are the same whether corporations or individuals are involved (R. 21, 30).

If. on the other hand, appellee has reference to the fact that *Watson v. Trask* included imputations directed to the person of the plaintiff, in addition to his property interest, then there is no distinction in fact. Here there are also imputations that appel-

lant infringed the appellee's patent and that appellant "simulated" the appellee's process (See *second* aspect, this brief, p. 15).

Appellee further urges that under the law of Ohio libel is broken down into separate categories wherein different rules are applied to imputations involving prostitution, venereal disease, a man's reputation, his honesty or a woman's chastity than there are to property rights and business rights (BFA. pp. 18, 20). *Watson,* to the direct contrary, gives equal and alternative effect to "* * * anything involving moral turpitude, which, if true, will subject him to infamous punishment, or that tends to exclude him from society, or to prejudice him in his office, profession, trade or business * * *" (6 O. 533).

Appellee finds comfort in noting that its interpretation of *Watson v. Trask* is observed in Corpus Juris Secundum at 35 C.J.S. 68 (BFA. p. 33). If appellee correctly characterizes the Corpus Juris Secundum interpretation of *Watson v. Trask,* it fails to note that this construction is in the minority. The same interpretation as that which appellant places upon *Watson v. Trask* is found in Robinson on Patents, Vol. III, p. 41, Sec. 866, footnote 1 (1890); 32 Century Digest, p. 1858, Libel and Slander, Sec. 1 (1902); *Cyclopedia of Law and Procedure,* Vol. 25, p. 263, Libel and Slander, footnote 79 and 80 (1907); Page and Adams, *Ohio Annotated General Code,* Vol. 5, p. 824 (1912); Newell, *Slander and Libel,* 3d Ed., p. 343, Sec. 319 (1914); Newell *Slander and Libel,* 4th Ed., Sec. 238, p. 276 (1924); *Ohio Jur.* Vol. 25, p. 181, Libel and Slander, Sec. 29, footnote 11 (1932); Page's *Ohio Digest,* Vol. 8, p. 25 Libel under § 21, "Words libelous per se" (1933); Page's *Ohio General Code,* Annotated, Vol. 8, p. 237, Sec. 11,341 (1938); 33 Am. Jur. 81, Libel and Slander, Sec. 63, footnote 11 (1941); and Page's *Ohio Revised Code,* Annotated Titles 25, 27, Sec. 2739.01, p. 341 (1954).

Appellee endeavors to buttress its discussion of *Watson v. Trask* with authorities from other jurisdictions than Ohio and with textbook authority not discussing the Ohio cases. Since none of these

authorities even purports to announce the Law of Ohio, appellant does not discuss them at this posture of the case but does discuss them later in proper company at pp. 39-46 of this brief. At this point we do suggest that the cases cited in Appellant's Opening Brief, pp. 58-61 dovetail with the Ohio law with far greater logic than do those which appellee cites.

The only other Ohio cases discussed in the briefs of the parties hereof which directly involve false imputations of patent infringement are *Mason v. Stacey & Carroll* (1879), 7 Dec. Rep. 567, 3 Bull. 1100; *Joseph v. Christy* (1882), 8 Dec. Rep. 476, 8 Bull. 190; and *Dopp v. Doll* (1885), 9 Dec. Rep. 428, 13 Bull. 335 (AOB. p. 38; BFA. p. 33). Appellant urges that they do not intimate that good faith belief is a defense and appellee urges that they have nothing to do with good faith, or lack thereof. In a limited sense, appellee is correct. But in the greater, all inclusive sense, since the decisions do not even mention good faith belief, they warrant the inference that good faith belief is not a defense in Ohio.

> "* * * It may not be conclusive against the correctness of a legal proposition, that it was not presented, when from the facts involved it might have been. But when this has occurred in a number of cases, where it is to be supposed that both counsel and court are well informed as to the rules of law, it is a reasonable inference that the point was not made because it was deemed untenable." *Benedict v. Schaettle* (1861), 12 O.S. 515, 525.

Appellant also relies upon several libel cases not directly involving false imputations of patent infringement but involving the general principles here at issue. *Union Central Life Ins. Co. v. Mutual Benefit Life Ins. Co. et al.* (1877), 5 Dec. Rep. 521, 2 Bull. 269; *Kahn v. Cincinnati Times-Star* (1890), 10 Ohio Dec. 599, 8 N.P. 616, Affirmed (1895), 52 O.S. 662, 44 N.E. 1132; *Cincinnati St. Ry. Co. v. Cincinnati Daily Tribune Co.* (1900), 10 Ohio Dec. 281, 282; *Peer v. Hoiles* (1925), 3 Ohio L. Abs.

653, 654; *Mulcahy v. Deitrick* (1931), 39 Ohio App. 65, 176 N.E. 481, 482; and *Westropp v. E. W. Scripps Co.* (1947), 148 O.S. 365, 74 N.E. 2d 340 (AOB. pp. 38-40). Appellee's disposal of them in a single paragraph (BFA. p. 41) does not purport to respond to the rules of law for which they stand. These cases all stand for the proposition that in Ohio any false statement tending to injure the business, name, reputation, trade, credit, profession or calling of an individual or a corporation is libelous *per se* and that malice is presumed unless the article published is true in fact in its entirety. The proposition stands unrebutted.

Appellee urges that the "law of Ohio is well set out" in *Alliance Securities Co. v. DeVilbiss Mfg. Co.* (6th Cir. 1930), 41 F.2d 668 (BFA. p. 25) and it assumes that the law of Ohio is applied in *Oil Engineering Co. v. Brooks Engineering Co.* (6th Cir. 1931), 52 F.2d 783; and *Coats Loaders & Stackers Inc. v. Robert D. Hendersen et al.* (6th Cir. 1956), 233 F.2d 915 because the cases were litigated in the Ohio District Courts (BFA. p. 24). These cases furnish their own internal evidence that they did not even purport to announce the Ohio law but on the contrary each relied upon general federal court authorities from many jurisdictions. As such we submit that they have no probative value in determining the Ohio law. So far as they announce the general law, they are each distinguished in other and more appropriate sections of this brief.

With respect to *International Industries & Development, Inc. v. Farbach Chemical Company, Inc.* (6th Cir. 1957), 241 F.2d 246 (BFA. pp. 24 and 26-28), we note that the Court did not state the source for its holding. But we have examined the Brief and Appendix for Appellee in that case* and note the following, pages 28-29:

---

*We have asked the Clerk of the Court of Appeals for the Sixth Circuit to forward the Briefs in *International Industries* to the Clerk of this Court so that they will be available for the inspection of the Court.

"OHIO LAW

"In Watson v. Trask, 6 Ohio Reports (Hammond) 531, the Supreme Court of Ohio held, in referring to a notice published by a patent owner charging that plaintiff's device was an infringement, noted on page 533 that:

> 'The publication is declared to be of the plaintiff in his business of maker and vendor of Bark Mills. It imputes to him the infraction of another's patent. This, if true, would subject him, and those purchasing and using his mills, to prosecution. Nothing could have a more direct tendency to the entire destruction of his business. It denies the plaintiff's right to deal in the subject of his occupation * * *'.

"The Court held the publication to be 'unequivocally libelous'."

In its discussion of the Ohio Case Law, appellee urges that Kemart has been unable to point out any case holding that under hio Law good faith is not a complete answer in a case where amages are asked because of a charge of patent infringement, ter proved mistaken." (BFA. p. 45). Appellant, in reply, urges at this defense was presented to the Ohio Supreme Court and as overruled in *McCue v. Wells* (1929), 121 O.S. 53, 161 N.E. 92, (discussed AOB. pp. 24-31, 62). Appellee has not responded the point that *McCue* directly overrules the good faith defense d approves only the truth defense.

On the issue of whether actual malice is an essential element of e tort, appellee maintains that "the Ohio law, as elsewhere, cognizes bad faith to be a *sine qua non* of the cause of action" BFA. p. 45). This thought is refuted implicitly in *McCue v. Vells*, (1929), 121 Ohio State 53, 166 N.E. 892 (AOB. pp. 5-31); *American Well Works v. Layne* (1916) 241 U.S. 257; d other cases cited at pp. 58 to 62 of appellant's opening brief, d explicitly in *International Industries & Developments, Inc. v. rbach Chemical Co., Inc.* (6 Cir. 1957), 241 F.2d 246, 248,

*Watson v. Trask* (1834) 6 Ohio 531, and *Reichman v. Drake* (1951), 89 O.A. 222, 100 N.E. 2d 533. In *Reichman,* the Court said 100 N.E. 2d 537:

> "* * * It will be seen that personal ill will, spite, or hatred is not an essential element in this cause of action. In this, as in most actions in tort, it might become important in the event it was sought to recover punitive damages. Its significance, however, is limited to its effect on the amount of the recovery."

We hasten to concede that *Reichman* does not involve the entire tort at bar, since the tort involved in *Reichman* was interference with contract only. But by its application of *Moran v. Dunphy,* 177 Mass. 485, an interference with contract case, as illustrative authority in *American Well Works v. Layne* (1916), 241 U.S. 257, at page 259, the Supreme Court confirmed that the rule applicable to interference with contract is also applicable to the instant form of tort.

Appellant therefore submits that appellee has not overcome the showing of Appellant's Opening Brief that the Ohio Case Law denies the defense of good faith where there is a publication of false charges of patent infringement.

**The Ohio Statutes Negate the Defense of Good Faith**

**(AOB. pp. 41-43)**
**(BFA. pp. 42-45)**

Appellant's Opening Brief urges that the Ohio Revised Code, Sec. 2901.37 prohibits the publication of "a false or malicious" libel (AOB. p. 41).

Appellee's main point is that Section 2901.37 is a criminal statute (BFA. p. 42). This is true, but it does not absolve appellee from civil liability because of its violation. The same view was overruled in *Stranahan Co. v. Coit* (1896), 55 Ohio State 398, 418, 45 N.E. 634, 640:

> "* * * Where a defendant is liable under the criminal statute he is liable to a person directly injured, civilly, unless

the language of the criminal statute indicates an opposite purpose, which is not the case here."

Appellee further urges that since this is a criminal statute, that e word "false" must be construed strictly to mean something ore than untrue or mistaken (BFA. p. 42). None of the cases hich appellee cites involves this particular statute. Where this rticular statute is invoked, the Courts of Ohio indicate that alse" means the opposite of "true". In *State v. Cass* (1898), 8 .D. 214, the Court in speaking of this same statute, said page 9:

"* * * The burden of proving that the matter charged as libelous is true, and was published with good motives and for justifiable ends, is upon the defendant."

Appellant next urges that the defenses in the cases of libel and ander are set forth in the Statutes of Ohio and that the presently serted defense is not contemplated within the Ohio Statutes AOB. pp. 41-43).

Appellee does not answer this argument directly, but it does rade a large group of cases generally discussing the question of ivilege and malice, without reference either to the statute or to e instant type of publication (BFA. p. 36-40).

Most of the authorities cited by appellee could not possibly uch upon appellant's legal proposition. Sections 2317.04 and 17.05 setting forth the statutory rules of privilege were first lopted by the Act of April 11, 1911, when the Ohio Legislature dded the limited privilege concept therein stated by the Laws of hio, Vol. 102, pp. 95-96. Thus the cases of *Liles v. Gaster* 885), 42 O.S. 631, 636; *Blair v. Burroughs* (1890), 23 Bull 0; *Harris v. Reams* (1860), 2 Dec. Rep. 281, 282; *How v. odman* (1855), 12 Dec. Rep. 272 do not purport to decide the esent issue. All of these cases were decided before the legisla- re codified and occupied the field of conditional privilege. More-

over, two of the cases decided before the enactment of the code, to wit *Wahle v. Cincinnatti Gazette Co.* (1879), 6 Dec. Rep. 709 and *The Post Publishing Co. v. Moloney* (1893), 50 O.S. 71, 33 N.E. 921, both denied the existence of the claimed privilege and hence, any language upon which the appellee relies in these cases is a mere dictum.

That our distinction is sound is shown in *Bolles v. Toledo Trust Co.* (1944), 144 Ohio State 195; 58 N.E. 2d 381; 157 ALR 1164. Syllabus by the Court, No. 13, recites:

> "Where the General Assembly has codified the law on a subject, such statutory provisions are to govern to the exclusion of the prior non-statutory law unless there is a clear legislative intention expressed or necessarily implied that the statutory provisions are merely cumulative."

The subsequent cases of *Ramseyer v. Sheehan* (1923), 1 O.L.A. 233, 234, and *De Anglo v. W. T. Grant Co.* (1952), 64 Abs. 366, 111 N.E. 2d 773 do not purport to touch on the subject. Both involve slander and not libel. *Watson v. Trask* (1834), 6 Ohio 531 states, p. 533:

> "* * * many charges, which, if merely spoken of another, would not sustain a suit for slander, will, if written or printed and published, sustain a suit for libel."

*Watson* is cited in support of the foregoing proposition in *Ohio Public Service Co. v. Myers* (1934) 54 Ohio App. 40, 45, 6 N.E. 2d 29, 31.

Moreover, *Ramseyer v. Sheehan* (1923), 1 Ohio Law Abstract, 233 (BFA. p. 39) involved one of the forms of privilege positively set forth in 2317.04 in so far as the statements were made in good faith to county commissioners, [either a municipal legislative body or a municipal board within the clear language of the statute].

The other subsequent case, *De Anglo v. W. T. Grant Co.* 1952), 64 Abs. 366, 111 N.E. 2d, 773 involves, in addition to ander, the employer-employee relationship, another limiting fac- r which is lacking in the case at bar.

Appellee criticizes appellant's application of *Westlake v. West- ke* (1878), 34 O.S. 621, 634; *Post Publishing Co. v. Moloney* 1893), 50 O.S. 71, 33 N.E. 921, 926; and *Meyer v. Parr* (1941), 9 O.A. 344, 37 N.E. 2d. 637, 641 (AOB. pp. 42-43, BFA. pp. 4-45) because it is said that Ohio does follow the common law, ting 9 Ohio Jur. 2d, Common Law, Sec. 1, p. 555 (BFA. p. 44). ppellant submits that Ohio Jurisprudence does not fully state e view of the Ohio Courts toward the old common law. In *ranklin v. Baker* (1891), 48 O.S. 296, 305, 27 N.E. 550, 552 e Court said:

> "It is evident that decisions based upon considerations not applicable to our own country are entitled to no weight as authority in its Courts; and that the decisions of courts in this country in which these decisions have been simply followed as precedents, are entitled to no greater weight. And, an examination will show that they have been disregarded by courts of distinction about as often as they have been followed."

Appellant submits therefore, that the Ohio statutes show that alice is not an essential element of appellant's claim and indicate at good faith, belief and advice of counsel are not available as efenses.

**he Ohio Constitution Precludes the Good Faith Defense**

**AOB. pp. 43-44)**
**BFA. p. 43)**

Appellant showed that the Constitution of Ohio precludes the ood faith defense because it makes every citizen responsible for he abuse of the right to exercise freedom of speech and because grants every person a remedy for an injury done in his land, erson, goods or reputation. Appellee's only response is a refer-

ence to *Cleveland Leader Printing Co. v. Nethersole* (1911) 84 O.S. 118, 133, 95 N.E. 735, 739 (BFA. p. 43). Appellant submits that this case does not give appellee the refuge which it seeks. In the first place, that case involves libel *per quod* and not libel *per se.* In the second place, the Court, in discussing the Bill of Rights, states specifically in the very quotation given by appellee:

> "* * * The liberty thus given is to publish truth with good motives and for justifiable ends."

In the case at bar, it has been shown that the publications at issue were false, not true. *Nethersole,* therefore, is inapplicable.

**The Defendant's Conduct Is Forbidden by the Convention**

**(AOB. pp. 49-56)**
**(BFA. pp. 54-60)**

Appellant argued in its Opening Brief that false allegations in the conduct of trade of a nature to discredit the establishment, the goods or the services of a competitor are particularly forbidden by the Paris Convention and that the Paris Convention became a part of our law, either upon its ratification or upon enactment of the Lanham Act of 1946.

Appellee's first point is that appellant's citation of the Paris Convention represents a change in position (BFA. p. 54). This is not so. Appellant relies on the Paris Convention as additional and controlling authority for the position which it has taken from the very beginning of the case, to-wit; that it is entitled to damages for "defendant's wrongful acts and doings" (R. 9) accruing from the publication of false charges of patent infringement (Complaint, paragraphs 13, 14 and 15, R. 7).

At page 54, appellee urges that the Paris Convention is over 75 years old (BFA. p. 54) thereby implying that if appellant's point were sound, it would not have taken 75 years for it to come to the fore. If this be an implied point lurking in appellee's argument, we note that Article 10 Bis, upon which appellant relies,

as added by the treaty amendment which was proclaimed on March 6, 1931 (47 Stats. 1789), and that, if the treaty were not elf-executing, it was actually incorporated into our law on July , 1947, one year after the enactment of the Lanham Act of 946 (60 Stats. 444, 427). Therefore, the enactment has not been effect for 75 years, but on the contrary it has been in effect for period of either 27 years or 12 years, depending upon the date hen Article 10 Bis effectively became incorporated into the law f this country.

Appellee's first concrete point that Article 10 Bis is inapplicable this case, is that this Court was either wrong or oblivious in *elite Corporation v. Dicalite Co.* (9th Cir. 1938) 96 F.2d 242, failing to apply the Treaty (BFA. p. 55). As appellant underands the *Celite* decision, the Treaty could not possibly have hanged the result in that case. Under the Treaty, a critical considation is that the allegations must be "false". In *Celite,* on the her hand, there were no "false" statements, a fact which is unoubtedly fully known to counsel for appellee in the case at bar. Ir. Leonard S. Lyon, chief counsel on the Brief for Appellant in *elite,* is also chief counsel for the patentee in the case at bar. The ief in *Celite* makes clear that the question of false imputations f patent infringement was not even before this Court for decision ecause everything that the patentee said about its patent was true. its brief (File No. 8310), the patentee pointed out at pp. 201-02 that "there is only one form of letter shown by the record to ave been sent by the plaintiff to the trade." Appellant set forth e contents of the letter *in haec verba* and stated,

> "There is nothing in this letter to support the finding of the court below. The letter does not state or infer that each and every product made or sold by the defendent constitutes an infringement of Johns-Manville Patents or is the subject of court inquiry. The truth of every statement in the letter must be conceded. It is nothing more than a proper legal notice of a filing of suits against the Pacatome Company and Dicalite Company for infringement of plaintiff's patents."

Thus the principle distinction between *Celite* and the case at bar, is that in *Celite* the patentee told only the truth. It stands adjudicated that the patentee in the case at bar did not tell the truth.

That this distinction is one of merit appears from the careful selection of authorities which this Court cited in support of its holding. This Court cited *American Ball Co. v. Federal Cartridge Corp.* (8th Cir. 1934), 70 F.2d 579, 98 ALR 665 twice during the course of its opinion (See 96 F.2d at page 250). It will be recalled that *American Ball* took into consideration both *Alliance Securities* and *Oil Conservation* upon which the appellee in the case at bar so strongly relies (BFA. pp. 24, 25, 26). After analyzing *Alliance Securities* and *Oil Conservation, American Ball* observed that, page 582:

> "* * * It may well be that if the patentee should fail to establish his rights as claimed by him that he might be subject to an action for damages (because of such false, though honestly believed, statements) on the part of the one mistakenly prosecuted for infringement * * *."

This is almost a recap of Article 10 Bis with specific emphasis upon the particular false statement at bar. Moreover, it is most significant that *American Ball* was not cited by any of the briefs in *Celite,* but that this Court itself selected *American Ball* as being one of the controlling authorities upon the issues analogous to the case at bar.

The next concrete point which appellee makes is that the effect of Article 10 Bis is in some undisclosed way adversely controlled by *Vanity Fair Mills, Inc. v. T. Eaton Co.* (2 Cir. 1956), 234 F.2d 633 (BFA. pp. 56). It seems to appellant that appellee has misread *Vanity Fair Mills.* In particular, following the purported quotation, paragraph 1 at BFA. p. 56, a footnote 10 appears after the words "unfair competition" at the end of the first full paragraph of the quotation. In footnote 10, the Court specifically cited

rticle 10 Bis of the Convention upon which the appellant relies the case at bar. Therefore, *Vanity Fair Mills,* instead of de-acting from the present position of appellant, affirms appellant's oposition that Article 10 Bis is part of our domestic law. Appel-nt submits that appellee has overlooked the true holding of *anity Fair.* That case merely overruled the contention "that e Convention created private rights under American Law for ts of unfair competition occurring in foreign countries." (234 2d 640). The holding of *Vanity Fair* is not at all contrary to the sition taken in the case at bar, for obviously the rights in ques-on in *Vanity Fair* are not comprehended by Article 10 Bis.

Moreover, we cannot even assume that the Court impliedly held at Article 10 Bis was not a part of our domestic law. This, for e reason that *Vanity Fair* relies in part on the earlier case of *Aiglon Apparel v. Lana Lobell, Inc.* (3d Cir. 1954), 214 F.2d 9, where the court in a well reasoned dictum, observed that in c. 44 of the Lanham Act "Congress manifested an intent to shion a remedy to coincide with rights growing from the respec-e international agreements" and that such rights as were pro-ded by Sec. 44(h) of the Lanham Act were "coextensive with the rying substantive provisions of the international agreements". is is exactly the same contention which appellant makes in the se at bar, to-wit that Article 10 Bis is a part of our substantive w.

Appellee next turns to Article 10 Ter and urges that it indicates at Article 10 Bis is not applicable (BFA. pp. 56-57). Appellant es not understand this argument. To appellant, Article 10 Ter ects an opposite conclusion.

Following this, appellee states that Article 10 Bis merely states principle in its quotation that "the following principally are be forbidden" (BFA. p. 57). In this quotation, appellee has t read carefully Article 10 Bis. Article 10 Bis actually states at "The following particularly are to be forbidden" (47 Stats. 07).

Appellee next urges that *Bacardi Corp. v. Domenech* (1940), 311 U.S. 150, 85 L. ed 98, cited by Kemart, does not support Kemart's proposition that the treaty was self-executing. In this, appellee's argument is directly contrary to *Master, Wardens, Etc. v. Cribben & Sexton Co.* (C.C.P.A. 1953), 202 F.2d 779, 783, wherein the Court cited *Bicardi Corp.* in support of the proposition that the Treaty of Paris was self-executing.

Moreover, even if the Treaty were not self-executing, it is most apparent that the Treaty did become a part of our law by virtue of Sec. 44 of the Lanham Act. This proposition is firmly established by *Stauffer v. Exley* (9th Cir. 1950) 184 F.2d 962, 964; *Master, Wardens, Etc. v. Cribben & Sexton Co.* (C.C.P.A. 1953), 202 F.2d 779, 783; *L'Aiglon Apparel v. Lana Lobell, Inc.* (3d Cir. 1954) 214 F.2d 649, 654; and *Vanity Fair Mills v. Eaton Co.* (2d Cir. 1956) 234 F.2d 633, 640. Indeed, we note that the *Stauffer* decision of this Court in 1950 is the vanguard of this controlling line of authorities.

Finally appellee urges that appellant's interpretation of the Treaty is contrary to U.S. Code, Title 35, Sec. 287 (BFA. p. 60). Appellant has read and reread the section in question and finds in it no authority, either explicitly or impliedly, granting a patentee permission or requiring him to publish false allegations that anyone is infringing his patent. Moreover, the statute does not require the patentee of a process patent to give any notice of infringement, either true or false. Section 287 refers only to the obligations of patentees and persons making or selling any patented article. It does not refer to the patentees and persons making or using any patented process. That this is not a mere verbal distinction is made clear from the many cases holding that the former statute, U.S. Code, Title 35, former Sec. 49, did not apply to process patents. This is the holding of *United States Mitis Co. v. Carnegie Steel Co.* (C.C. Pa. 1898), 89 Fed. 206, affirmed per curiam (3d Cir. 1898) 90 Fed. 829; *United States Mitis Co. v. Midvale Steel Co.* (C.C. Pa. 1904), 135 Fed. 103, 112; and

*Vagner v. Corn Products Refining Co.* (D.C. N.J. 1928), 28 .2d 617, 619, as well as the dictum of *Wine Railway Appliance Co. v. Enterprise Railway Equipment Co.* (1936), 297 U.S. 387, 95, 80 L.ed. 736, 738.

Appellant therefore, submits that defendant has not overcome s proposition that the instant publications of false charges are ctionable under the Treaty of Paris particularly in so far as it has een incorporated into our local law by virtue of the Lanham Act f 1946.

**he Weight of Sound Authority Negates the Defense**

**AOB. pp. 56-62)**
**BFA. pp. 20-24)**

In its opening brief, appellant conceded that the "good faith" ule which the District Court applied is one which some courts ave announced from time to time to defeat the claim of the utative infringer for damages resulting from publication of false harges of patent infringement (AOB. p. 56). Appellant further howed that the rule had an untenable basis in *Wren & Another v. Veild* (1869), L.R. 4 Q.B. 730 (AOB. pp. 56-57); that the ritish Parliament overruled the rule; and that many courts of istinction have disregarded the rule about as often as it has been llowed.

At this point we note that in our earlier discussion of *E. Edelmann & Co. v. Triple-A Specialty Co.* (7th Cir. 1937), 88 F.2d 52 (AOB. p. 60), we neglected to show that the trial court ranted "an accounting for such damages, if any, as had accrued ecause of the circulation of wrongful charges of infringement" 88 F.2d 853) and that Judge Lindley, then District Judge, in peaking for the Court, characterized the crux of the claim as the additional fact that appellant has wrongfully circulated, mong the trade, false charges of infringement" (88 F.2d 854). We repeat that there were no findings of express malice. If malice

were an unexpressed element in *Edelmann,* therefore, it had to be that malice in law implied from the falsity of the charge.

At page 20, appellee claims the benefit of "public policy" in respect to its publication of false charges of patent infringement. This must be balanced against the right of the putative infringer "to enjoy a good reputation when he has done nothing which ought to injure it." *Post Pub. Co. v. Hallam* (6 Cir. 1893), 59 Fed. 530, 540. Although it is particularly true that "the public interest * * * is dominant in the patent system" *Mercoid Corp. v. Mid-Continent Co.* (1944), 320 U.S. 661, 665, as a part of that same public interest the rule is clear that "the limits of the patent are narrowly and strictly confined by the precise terms of the grant" (320 U.S. 665). In the case at bar, appellee expanded the phrase "ultra violet light only" far beyond the precise terms of the grant when it published its false charges of infringement. Therefore, it should not be able to claim the exercise of public policy in its behalf.

Appellee does not distinguish the general authorities cited in Appellant's Opening Brief. On the contrary, appellee, with legalistic selective blindness, looks exclusively to the contrary line of authorities to support platitudes that "the courts of the United States *are in accord* that no tort is involved unless bad faith be shown" (BFA. p. 20); that the *"cases throughout the country* * * * *all* subscribe to the rule that good faith is a complete defense to this type of action" (BFA. p. 22); that "the courts throughout the United States *display unanimity* in holding the law to be that charges of infringement absent bad faith provide no cause for damages" (BFA. p. 23); and that "the defense is good *throughout the land"* (BFA. p. 34) [All emphasis added]. Appellant submits that appellee's authorities do not establish that the rule as so stated is universal or unanimous, or for that matter that it even represents the weight of authority.

Many of appellee's authorities cited in support of its view may be disposed of as falling into distinct categories legally quite remote from the case at bar.

A first category includes *Virtue v. Creamery Package Co.* 1912), 227 U.S. 8, 57 L.Ed. 393 (BFA. p. 20) and *Eastern tates Petroleum Co., Inc. v. Asiatic Petroleum Corporation et al.* 2 Cir. 1939), 103 F.2d 315 (BFA. p. 22). Both cases involved nly the very specific case of a plaintiff seeking damages for lleged violations of the anti-trust laws and the holding of the ourts was that the imputations of infringement were not anti-rust violations. Neither case even purports to announce the legal ules applicable to a tort claim for damages from false charges f patent infringement. It is clear from several factors that the istinction is one of merit.

The *first* factor is found in the language immediately following ne quotation selected by appellee from *Virtue* (BFA. pp. 20-21). 'he completed quotation limits appellee's partial quotation, and is s follows, 227 U.S. 38:

> "* * * Patent rights, it is true, may be asserted in malicious prosecutions as other rights, or asserted rights, may be. But this is not an action for malicious prosecution. It is an action under the Sherman Antitrust Act for the violation of the provisions of that act, seeking treble damages. * * *"

The *second* factor is that within two and a half years later, sub-antially the same bench recognized that false charges of patent nfringement were actionable in tort in *American Well Works Co. . Layne* (1916), 241 U.S. 257. Mr. Justice Holmes who delivered ne opinion of the court in *American Well Works* sat on the bench hich delivered the opinion in *Virtue* and Mr. Justice McKenna ho delivered the opinion of the court in *Virtue* dissented in *merican Well Works.* Accordingly, we assume that the court in *merican Well Works* did not overlook *Virtue* in holding that the ublication of false charges of patent infringement might be action-ble as a tort under state law. Indeed, in *American Well Works, lovey v. Rubber Tip Pencil Co.* (1874), 57 N.Y. 119, one of

the earliest American authorities on appellee's proposition,* was particularly called to the attention of the court (60 L.Ed. 988) and the Court nonetheless preferred the more liberal rule of *Moran v. Dunphy,* 177 Mass. 485. Although the language of *Moran* is not quoted in *American Well Works,* its adoption by paraphrase is most significant. We recall that the Supreme Court held that the instant type of conduct "is equally actionable whether it produces the result by persuasion, by threats, or by falsehood" (241 U.S. 259) and that "the wrong is the same whatever the means by which it is accomplished" (241 U.S. 260). These views were taken directly from *Moran* where the Supreme Court of Massachusetts, speaking through its then Chief Justice Holmes, stated (177 Mass. 487):

> "* * * we see no sound distinction between persuading by malevolent advice or accomplishing the same result by falsehood or putting in fear. In all these cases the employer is controlled through motives created by the defendant for the unprivileged purpose. It appears to us not to matter which motive is relied upon. If accomplishing the end by one of them is a wrong to the plaintiff, accomplishing it by either of the others must be equally wrong."

The *third* factor is, as stated by Judge Learned Hand in his dissenting opinion in *Eastern States* (103 F.2d 322), that the issue of the claimed privilege was not even necessary to decide in such an anti-trust case (AOB. p. 61).

The *fourth* factor is that *Black & Yates v. Mahogany Ass'n.* (3rd Cir. 1941), 129 F.2d 227, held that trade disparagement would not support a claim for alleged violations of the antitrust laws, but that it would support a tort claim for damages and injunctive relief even in the absence of express malice.

---

**Hovey* is apparently the first American authority to have adopted the rule of *Wren v. Weild* (57 N.Y. 126), having adopted it in 1874 before it was overruled by the British Parliament in 1883 (AOB. p. 57).

A second category of cases includes *Bechik Products, Inc. v. lexible Products, Inc.* (2 Cir. 1955), 225 F.2d 603 (BFA. 22); . *W. Eldridge Co. v. Southern Handkerchief Mfg. Co.* (W.D.S.C. 938), 23 F. Supp. 179 (BFA. p. 22); *Kelley v. Ypsilanti Dress-tay Mfg. Co.* (E.D. Mich. 1890), 44 Fed. 19 (included in uotation, BFA. 22); and *Oil Conservation Engineering Co. v. rooks Engineering Co.* (6 Cir. 1931), 52 F.2d 783 (BFA. 24). hese cases do not involve a claim for damages accruing from the ublication of false charges of patent infringement but decide hly the requisites for a suit in equity for injunctive relief. The istinction between the two different classes of cases is well recog-ized in *American Ball Co. v. Federal Cartridge Corp.* (8th Cir. 934), 70 F.2d 579, 582 (AOB. p. 32, 36, 60); *Oil Conservation ngineering Co. v. Brooks Engineering Co.* (6 Cir. 1931), 52 .2d 783 (AOB. p. 31); and *Dopp v. Doll* (1885), 9 Ohio Dec. ep. 428, 13 Week. L. Bull. 335 (AOB. p. 38). But more than at, even on this remote phase, courts of distinction are beginning grant injunctive relief in the absence of malice where the action between business competitors. *Black & Yates v. Mahogany ss'n* (3 Cir. 1941), 129 F.2d 227 (AOB. pp. 61-62).

A third category of cases includes *Celite Corporation v. Dica-te Co.* (9 Cir. 1938), 96 F.2d 242, cert. den. 305 U.S. 633 (BFA. p. 21-22); *Zephyr American Corporation v. Bates Mfg. Co.* D.N.J. 1945), 59 F. Supp. 573 (BFA. p. 22); and *Alliance ecurities Co. v. DeVilbiss Mfg. Co.* (6 Cir. 1930), 41 F.2d 668 BFA. p. 24). These do not involve a claim of damages accruing om false charges of patent infringement. In each of those cases e patentee stayed within the truth. *Celite* is thus discussed earlier this brief, p. 35. Moreover, in *Celite*, even though the publi-tions were not shown to be false in fact, the putative infringer ecovered damages. *Zephyr American* expressly notes that "no verment has been made and no evidence found indicating that e statements contained in the notices were false in any respect"

(59 F. Supp. 576). *Zephyr American* also specifically applied the law of New Jersey and Illinois (59 F. Supp. 575-576), and not that of Ohio. With respect to *Alliance,* the absence of falsity is shown in AOB. p. 32. *Alliance,* therefore, merely applies the same rule as that of Ohio Revised Code, sec. 2739.02, that "Proof of the truth thereof shall be a complete defense" (AOB. p. 41); of *McCue v. Wells* (1929), 121 Ohio State 53, 166 N.E. 892, that the patentee "was entitled to go to the jury upon that issue", e.g., as to whether the publication was true or false (AOB. p. 29); and of *American Well Works v. Layne* (1916), 241 U.S. 257, 259, that "If it is a statement of fact, it may be justified, absolutely or with qualifications, by proof that the statement is true" (AOB. p. 60).

We now turn to the balance of appellee's general authorities and show that they do not and cannot justify the present decision here on appeal.

At page 21, appellee cites and quotes from *Virtue v. Creamery Package Mfg. Co.* (1913), 123 Minn. 17, 142 N.W. 930, 1136. The general language cited in the quotation (BFA. p. 21) is not sustainable as a broad all inclusive legal proposition. The case states the law of Minnesota. The type of malice comprehended in *Virtue* includes such slight malice as "some ill feeling". *Froslee v. Lund's State Bank* (1915), 131 Minn. 435, 155 N.W. 619, 620. Appellee certainly manifested "some ill feeling" toward appellant when it suggested that appellant "simulated" the Fluorographic Process (R. 265) and when it suggested that Kemart "were best straightway and without further ado * * * forthwith forced into bankruptcy" (RC. 55).

Appellee, page 22, cites *Kaplan et al. v. Helenhart Novelty Corporation et al.* (2 Cir. 1950), 182 F.2d 311, and quotes at length from that case. The quotation makes perfectly clear that *Kaplan* did not fully consider the issues presented in the case at bar. The decision relies principally upon *Eastern States, Kelley* and *Virtue* (BFA. pp. 22-23) which have nothing to do with an

tion for damages for tort, all as is shown above, *supra* pp. 41-43. oreover, the broad base of *Kelley* includes the unsound authority *Wren & Another v. Weild* (1869), L.R. 4 Q.B. 730 (44 Fed. 3), which was overruled by the British Parliament (AOB. p. 57), d was later determined to be an unsound case by the subsequent nglish cases (AOB. pp. 58-60).

We further note that *Kaplan* is not a strong case. The majority the court in *International Industries & Development v. Farbach hemical Co.* (1957), 241 F.2d 246 refused to accept it as an thority in an action for damages, notwithstanding the fact that was cited as authority both in the dissenting opinion of Circuit dge Stewart (241 Fed. 246, 248), and in the petition for rehearg (R. 63).

On pages 22 and 23, appellee discusses *Farquhar Co. Limited v. ational Harrow Co.* (3 Cir. 1900), 102 F. 714. The quotation om *Farquhar* (BFA. p. 23) is a mere dictum because in *Farquhar* dgment was actually entered in favor of the putative infringer. *United States Galvanizing & Plating Equipment Corporation v. anson-Van Winkle-Munning Co.* (4 Cir. 1939), 104 F.2d 856 AOB. p. 22) arose in West Virginia and does not discuss the w of libel and slander in any of its aspects. The case merely olds that upon the evidence in that case, a charge of unfair cometition could not be sustained. The case does not purport to overle any of the authorities upon which appellant relies.

*Coats Loaders & Stackers, Inc. v. Henderson* (6 Cir. 1956), 233 .2d 915 is cited without discussion (BFA. p. 24, 26). *Coats* early does not at present apply where there is "implied malice law" as where the words are false. That *Coats* has weak stature made clear by the refusal of the same Court to follow *Coats* in s later decision of *International Industries & Developments, Inc. Farbach Chemical Co., Inc.* (6 Cir. 1957), 241 F. 2d 246, notithstanding that *Coats* was directly before the Court, *Coats* havng been cited both in the dissenting opinion of Circuit Judge

Stewart (241 F.2d 248) and in the petition for rehearing (R. 64).

Appellee endeavors to give its legal authorities added stature by placing them upon a backdrop of selected quotations from Nims on *Unfair Competition and Trade Marks*, Callman on *Unfair Competition and Trade-marks* and the Restatement of the Law of Torts (BFA. pp. 18-20). Appellant submits that on this particular issue the textbooks do not supply the objectivity usually found in texts. None of these texts even mentions *Watson v. Trask* (1834), 6 Ohio 531, whereas a number of other authorities have concluded that *Watson v. Trask* makes the instant charges libelous *per se* (this brief, page 26). Nims and Callman both cite *Wren v. Wield* as the earliest authority in support of their rule (e.g., Nims, p. 840, footnote 8, and Callman, p. 720, footnote 33) but neither notes that *Wren* was overruled by the British Parliament. Moreover, appellant submits that the stature of Mr. Justice Holmes, Judges Kimbrough Stone, Lindley, Learned Hand and William Clark, Lord Bowen (see 3 Encylopedia Britannica 976), and Professor Jeremiah Smith, makes their views and reasoning preferable in evaluating the issue of whether the publications of "false" charges of patent infringement require the element of actual malice as distinguished from malice in law to make them actionable.

Appellant submits that the Ohio and general authorities upon which it relies (AOB. pp. 25-31, 37-40, 56-62) state the sounder rule. An analysis of both conflicting lines of authority shows clear error in appellee's statement "that the courts throughout the United States display unanimity in holding the law to be that charges of infringement absent bad faith provide no cause for damages" (BFA. p. 23). The rule of appellee places an unwarranted burden on the person who is in fact aggrieved. If the statement be false, the actual injury is not related in the slightest to presence or absence of malice but flows directly from the falsity of the charge. Therefore, the inclusion of actual malice as a necessary element of the tort is wholly artificial.

**ıe District Court Erred in Basing Good Faith Upon the Opinion f Experienced, Although Interested, Patent Counsel**

**AOB. pp. 62-65)**
**BFA. pp. 46-51)**

The findings disclose that the only proferred evidence of good ith which the District Court accepted in the case at bar was e opinion of Mr. McCaleb who was interested counsel (Finding R. 27). Appellant showed that in Ohio, the opinion of interested unsel does not justify any kind of tort. Appellant further showed at even if the opinion of counsel were a defense, appellee has ot made good its defense.

Appellee thinks that Kemart's argument is that, since Mr. cCaleb was interested, appellee acted in bad faith in relying on his advice (BFA. 49). This misstates Kemart's position. emart's point is that one may not rely upon an opinion of inter- ted counsel to support the good faith defense even if that efense were legally available. Appellee urges that this presents question of fact. The Ohio authority of *Union v. United Bat- ry Service Co.* (1929), 35 O. App. 68, 171 N.E. 608, (cited OB. p. 64) holds that it is reversible error to weigh an opinion interested counsel in deciding the issue of good faith. There- re, the error claimed here is not error in fact, but is error in law.

Appellant urged that all of the good faith and absence of malice indings No. 1-D, 6 and 8 (R. 27-29) were based upon finding (R. 27) and that they must therefore fall with Finding 2 AOB. p. 65). Appellee, on the other hand, refers to matters hich were not comprehended in subsidiary findings in its effort buttress the good faith findings.

Appellee, as support for the Findings of Fact, relies upon *eserve Life Insurance Co. v. Simpson* (9th Cir. 1953), 206 F.2d 39. *Reserve Life* applies the salutory principle of Rule 52(a) that ndings of fact shall not be set aside unless clearly erroneous. In *eserve Life* the findings were not clearly erroneous because "all ıe findings were supported by substantial evidence" (206 F.2d

390). In the case at bar, on the other hand, it has been shown that the only evidence supporting the findings of fact of good faith i.e., advice of interested counsel, does not constitute a legal defense. As a consequence, there is here no substantial evidence to support the findings and, on the other hand, there is substantial and considerable evidence to the direct contrary. Rule 52(a) would, therefore, appear to lend no support to the present findings. *United States v. Du Pont de Nemours & Co.* (1957), 353 U.S. 586, 598 (footnote 28); *United States v. Gypsum Co.* (1948), 333 U.S. 364, 394-395; *Schneiderman v. United States* (1943), 320 U.S. 118, 129-130; *Kelley v. Everglades Drainage Dist.* (1943), 319 U.S. 415, 420-421; *Centennial Insurance Company v. Schnieder* (9th Cir. 1957), 247 F.2d 491, 494; *Smallfield v. Home Insurance Company of New York* (9th Cir. 1957), 244 F.2d 337, 341; *Sealy v. Mitchell* (5th Cir. 1957), 249 F.2d 327, 331; and *Merchants National Bank & Trust Co. v. United States* (7th Cir. 1957), 246 F.2d 410, 417. See also U.S. Code, Title 28, Section 2106.

Appellee's first point is that the only question at issue was whether or not the Marx patent should be interpreted to cover all processes wherein ultra-violet light illuminated the copy (BFA. p. 48) and that appellee throughout the litigation has contended so long as ultra-violet light only was used to illuminate the Kemart copy, that the Kemart process infringed (AOB. pp. 50-51). If this be true, then the argument proves that appellee acted with that "gross carelessness" which is a form of express malice in a case against a corporation (25 O. Jur. 258, *Libel and Slander,* Sec. 119). Appellant says that this constitutes a gross carelessness for two reasons.

The *first* reason is that the wash drawing phase of the Kemart process, which was before this Court on the first appeal (Berry Patent 2,395,986, RA. 778-780), and the highlight-white paint phase of the Kemart process, which was not before this Court

n the first appeal and which was abandoned as a putative hfringement (Berry Patent 2,395,985, RA. 773-776), both use ltra-violet light to illuminate the copy (See Exhibits LL and MM, RA. 780-803). The only difference between these two ranches of the Kemart Process is the difference in copy.

The *second* reason for urging that such conduct constitutes ross carelessness is that during the prosecution of the application which led up to the allowance of the patent in suit, Marx isclaimed such a scope to his patent which would literally have overed at least the wash drawing phase of the Kemart Process y his cancellation of application claim 25. Claim 25 recited, RA. 699):

> "In halftone photography for eliminating the screen pattern in selected sections of the halftone negative, the steps of illuminating the subject with only ultra-violet light and then photographing the subject which has been previously made selective by making the tone or shaded sections thereof absorbent of ultra-violet light."

Application claim 25 was presented by an amendment of December 19, 1938 (RA. 695); it was rejected on March 23, 1939 for the reason that it was not limited to "the use of 'ultra-violet only' in the step involving it" (RA. 704-705) and it was cancelled on August 31, 1939 (RA. 706). This was a clear holding by the Patent Office that "ultra-violet only" as used in the allowed claims comprehended something more specific than "illuminating the subject with only ultra-violet light." Appellee acceded to this holding by cancelling claim 25 rather than appealing it. Appellee as a legal consequence became estopped thereafter to make the contention that its process covered the step of illuminating the copy with ultra-violet light only. *Exhibit Supply Co. v. Ace Corp.* (1942), 315 U.S. 126, 136-137; *D. & H. Electric Company v. M. Stephens Mfg.* (9th Cir. 1956), 233 F.2d 879, 883-884; and *Tampax Inc. v. Personal Products Corp.* (2nd Cir. 1941), 123 F.2d 722, 723.

Having proceeded with its case in the light of this expres: estoppel, its assertion of a broader interpretation was certainly an act of legal unfairness. It was carelessness in construing its own claims. This Court, on the first appeal, did not find it necessary to reach the issue of file wrapper estoppel presumably because, as shown immediately below, it found an absence of equivalency.

Appellee next urges that this Court on the first appeal "made no factual determination of contrary to those of Judge Mathes, but rather concluded as a matter of law" that there was non-infringement (BFA. p. 49). We have shown above, this brief pp. 11-12, that this Court overturned Findings of Fact X, XII and XIII, each finding the fact of infringement, because there was no evidence to support them.

At page 50, appellee seeks to justify Mr. Marx's failure to investigate Kemart copy on the ground that the form of copy was immaterial since the issues were dependent only upon the form of light used to illuminate the copy. In urging that the form of copy is immaterial, appellee has overlooked its own prior argument in appeal No. 12,948. In its brief on that appeal, appellee urged at length that the production of the drawing or copy was an important element of the process—both in its argument on validity and in its argument on infringement. The making of the copy was the Marx step A (see Cause No. 12,948, BFA, pp. 18, 19-20, 25, 30, 43-52). Moreover, the first published charge of infringement hinged upon claim 12 (Exhibit RR, R. 287-288) which required that the copy be partially "reflective" of ultra-violet light (RA. 673), a feature wholly lacking in Kemart copy and one which appellee would have known to be lacking had it first examined Kemart copy. It appears quite impossible that appellee can now assert to this Court that the form of the copy is immaterial.

Appellee, page 51, in an attempted explanation of its failure to distinguish between the wash drawing phase of the Kemart Process and the highlight-white phase of the Kemart Process in its charges of infringement, proclaims that a distinction would

have meant nothing to the trade who knew the process offered by Kemart as the Kemart Process. Appellant concedes that this is true (See Exhibit LL and MM, RA. 783-803) but urges in reply that this compounds the unfairness rather than justifying it. If, as appellee contends and as appellant concedes, the public knew of the Kemart Process as a unity of several processes, appellee should have made doubly certain that its charges of infringement would not be directed to the entire Kemart Process but would be limited only to the wash drawing phase thereof. Its failure so to do is certainly indicative of unfairness, if not deliberate unfairness. It told the public that the entire Kemart process was charged to be an infringement whereas appellee privately had determined that only the wash drawing form of the Kemart Process was to be prosecuted as an infringement.

Moreover, this argument of appellee lacks substance on the instant record. The conduct of appellee makes clear that its charge of infringement was intended to cover both the wash drawing and the highlight white phases of the Kemart Process. On April 13, 1949, appellee, in its sworn answers to interrogatories, twice specified "Kemart Highlight White" (RA. 19, 20) as partial support for "its statement that the practice of the Kemart Process infringes Marx patent 2,191,939" (RA. 14). It also stated that "plaintiff contributorily infringes said patent when it furnishes * * * Kemart Highlight White * * *" (RA. 21). On April 16, 1949, Berry patent 2,395,985 (which covers only the highlight white phase of the Kemart Process) was by stipulation included within the issues of the litigation (Para. 3 and 8, RA. 25 and 26). It was not until during the trial of the cause that counsel for appellee, on October 26, 1950, finally conceded that "There is not a thing in this record, and properly so, about that Berry patent. I did not even mention it in my case" (RA. 315). And hence all reference to the highlight white phase and the highlight white Berry patent are absent from the findings of fact, conclusions of law and judgment on the first

trial (RA. 46-56). As a consequence, this Court found it unnecessary to discuss the "highlight white" Kemart Process on the first appeal (201 F.2d 628, footnote 7). But on this appeal, the fact that appellee broadly included the entire Kemart Process in its publications fortifies our conclusion that the false charges of infringement were not published in good faith.

Appellant, therefore, submits that these new matters which appellee has raised on the fact issue of good faith and absence of malice do not furnish independent justification for the findings of fact of the District Court. Appellant submits further that it has demonstrated that there is no support in this record for the findings of fact that appellee acted in good faith and in absence of malice. The only evidence to which either of the parties has pointed indicates only an opposite conclusion. Findings of fact are clearly erroneous not only where they are unsupported by any record evidence, but also when the only evidence touching upon the issue is directly contrary.

Parenthetically, the argument of appellee makes clear the confusion which results from the good faith and malice issue. Where such a defense is raised, there are no standards by which one can determine whether malice is or is not present. When one says malice, does that mean a modicum of malice or plethora of malice? What relationship can there be shown between the fact of malice and the fact of injury? Legal rights and duties should not be determinable on such a vague, undefinable and unrelatable basis. Therein lies a true and practical strength in the decisions which do not equate actual malice as an element of the tort.

**The District Court Erred in Finding Justification in Appellant's Publications**

(AOB. pp. 65-70)
(BFA. pp. 52-53)

Appellant's Opening Brief urged that Findings 4, 5 and 7, as a matter of law, do not justify appellee's defamations and threats (AOB. pp. 65-69).

Appellee twice denies, without citation of authority, that it is required to show any justification for its acts (BFA. pp. 52 and 53). On the other hand, *American Well Works v. Layne* (1916) 241 U.S. 257, 259 directly held:

> "* * * it is enough to allege and prove the conduct and effect, leaving the defendant to justify if he can. If the conduct complained of is persuasion, it may be justified by the fact that the defendant is a competitor, or by good faith and reasonable grounds. If it is a statement of fact, it may be justified, absolutely or with qualifications, by proof that the statement is true. But all such justifications are defenses and raise issues that are no part of plaintiff's case. * * *"

In the case at bar, the conduct complained of are the false statements of fact and not mere persuasion. Therefore, the justification is proof of the truth thereof. This proof being a matter of defense, is a part of appellee's case and it has failed completely to prove justification.

Appellee urges that Findings of Fact 4, 5, and 7 merely provide additional support for the ultimate findings of good faith (BFA. p. 52). An examination of the record and the law shows the contrary.

Appellee, page 52, spells out that Mr. Adams "first published" the letter charging infringement to Mr. Mertle. This brief, p. 5, shows that Mr. Mertle was the technical adviser for Kemart, and that as a consequence there was no publication.

Indeed, the disclosure of the letter by Mr. Adams to Mr. Mertle is the natural consequence of the acts of appellee and therefore if it is a publication, it is that of appellee. *Hedgepeth v. Colman* (1922) 183 N.C. 309; 111 S.E. 517, 520; and *Miller v. Butler & Another* (1850) 60 Mass. 71. These two cases have been cited with approval in *Ohio Public Service v. Myers* (1934) 54 Ohio App. 40; 6 N.E. 2d 29, 32.

Appellee next urges, page 52, that the publication to Messrs. Mertle, Flader, Schmidt and Latimer was the result of questions

directed to Mr. Marx about the potential patent litigation. Th trial court did not so find. Even if the finding be implied (whic it is not), appellee cites no legal authority justifying its publicatio on such a basis. Such justification is not found in the common lav for, as stated in *Skinner & Co. v. Shew & Co.* (1892), 1 Chan 413, at p. 422, there was nothing under the common law in th nature of privilege, in a letter charging infringement "which is i answer to a question" (See AOB. p. 59).

Appellee then states, pages 52-53, that appellant's publicatior of Plaintiff's Exhibit 60 and Defendant's Exhibit NN excused appellee's subsequent publications, and that in any event their legal effect would not be governed by the Ohio law, but rather by the general law. Appellee cites no authority. Appellant, on the other hand, shows that Kemart's publication is of no legal materiality, whether the matter be determined by Ohio law, or by general law, or by both (AOB. pp. 67-70). The issue is thus squarely presented to this Court on the law.

Appellee's final argument, page 53, that its subsequent publications, plaintiff's Exhibits 34 and 74, added nothing so far as the objected to charge of infringement is concerned has been answered earlier in this brief at page 7.

Appellee has cited no legal authority even tending to support the novel propositions of law underlying Findings of Fact 4, 5 and 7. Appellant, on the other hand, has presented both Ohio and other authority consistently overruling the defensive value of facts such as those presented in Findings 4, 5 and 7. Appellant, therefore, submits that Findings of Fact 4, 5 and 7 do not justify either appellee's defamation of appellant and appellant's process, or appellee's threats to appellant's customers.

**ppellant Should Have Been Awarded easonable Attorney's Fees**

**AOB. pp. 70-75)**
**BFA. pp. 61-62)**

Appellant urges that it is entitled to reasonable attorney's fees ither under U.S. Code, Title 35, Section 285 (AOB. pp. 70-74) or nder the Ohio law as expenses for clearing up the defamatory harges (AOB. p. 74).

In responding to appellant's first point, appellee, page 61, cites *ark-In Theatres, Inc. v. Perkins* (9th Cir. 1951), 190 F.2d 137, nd Findings of Fact 14 and 15. In reply, appellant submits that he seven items cataloged at page 71 of Appellant's Opening Brief seem to be the type of "equitable consideration" recognized y the Court in *Park-In Theatres* which makes it grossly unjust hat appellant should have been required to pay its own expenses f litigation.

Perhaps the most pertinent authority on the facts is *Russell Box Co. v. Grant Paper Box Co.* (2d Cir. 1952), 203 F.2d 177 (cited AOB. p. 72 and not distinguished by appellee). In *Russell Box,* as in the case at bar, the ultimate loser had been successful n the trial court and, as appellee claims in the case at bar, the reversal was purely on a question of law. As there stated by the Court, the crux of the award was "carelessness in ascertaining the facts, carelessness in construing claim 3 or a combination of the two" (203 F.2d 183). In the case at bar, there certainly was carelessness in ascertaining the facts as to the nature of the Kemart copy, there was carelessness in claiming that ultra-violet reflective light and ultra-violet fluorescent light were known equivalents when the record discloses that they were known as two entirely different methods of lighting; and there was carelessness in construing the meaning of the words "ultra-violet light only" in the claims, particularly since appellee had disclaimed Claim 25 in which the subject was illuminated with only ultra-violet light.

Appellant submits further that the use of any misleading

testimony in support of one's position, whether that testimor be deemed material or immaterial, is an exceptional circumstanc Having won in the court below, appellee is in no position now t dispute the effectiveness of the misleading testimony (See *Haze Atlas Co. v. Hartford Co.* (1944), 322 U.S. 238, 246, cited AOF p. 73, and not distinguished by appellee).

The second phase of appellant's argument that is entitled t attorney's fees under the Ohio law as part of its damages i clearing up the defamatory charges, is not answered. There i no reasonable answer to appellant's position.

Appellant submits, therefore, that the District Court committe reversible error in failing to assess reasonable attorney's fee against appellee and in favor of appellant.

## CONCLUSION

Appellant urges that the judgment of the District Court be reversed with instructions to assess appellant's damages resulting from appellee's wrongful acts and doings and with instructions to assess reasonable attorney's fees against appellee and in favor of appellant.

On the damage legal issue, appellant submits that under controlling law actual malice is not an essential element to a claim for damages resulting from publication of false charges of infringement and that good faith and reliance upon advice of counsel are not defenses, whether that controlling law be deemed the Treaty of Paris; the Ohio Constitution; the Ohio Statutes; the Ohio case law; or in the words of Judge Clark, "the better reasoned cases", from other jurisdictions.

On the damage factual issue as to whether appellee has proven good faith even if it were available as a defense, appellant submits that the findings of fact in favor of appellee on this issue are entirely without legally effective supporting evidence, and as such they are clearly erroneous under Rule 52.

On the attorney's fees issue, appellant submits that attorney's fees should be awarded either under U.S. Code, Title 35, Section 35 as an "exceptional" patent case or under the Ohio case law as a part of appellant's expenses in clearing up the false and defamatory charges of patent infringement.

Respectfully submitted,

HENRY GIFFORD HARDY
410 Mills Building
San Francisco 4, California

CARL HOPPE
2610 Russ Building
San Francisco 4, California

See also Vol. 3049

# No. 15,644

IN THE

# United States Court of Appeals

## For the Ninth Circuit

---

MARION S. FELTER, on behalf of himself and others similarly situated,

*Appellant,*

vs.

SOUTHERN PACIFIC COMPANY, a corporation; BROTHERHOOD OF RAILROAD TRAINMEN, a voluntary association; J. J. CORCORAN, as General Chairman, General Committee, Brotherhood of Railroad Trainmen; J. E. TEAGUE, as Secretary, General Committee, Brotherhood of Railroad Trainmen,

*Appellees.*

---

## APPELLANT'S OPENING BRIEF.

---

CARROLL, DAVIS, BURDICK & MCDONOUGH,
900 Balfour Building, San Francisco 4, California,
*Attorneys for Appellant.*

## Subject Index

## Table of Authorities Cited

### Cases



### Statutes

No. 15,644

IN THE

# United States Court of Appeals

## For the Ninth Circuit

---

MARION S. FELTER, on behalf of himself and others similarly situated,

*Appellant,*

vs.

SOUTHERN PACIFIC COMPANY, a corporation; BROTHERHOOD OF RAILROAD TRAINMEN, a voluntary association; J. J. CORCORAN, as General Chairman, General Committee, Brotherhood of Railroad Trainmen; J. E. TEAGUE, as Secretary, General Committee, Brotherhood of Railroad Trainmen,

*Appellees.*

## APPELLANT'S OPENING BRIEF.

---

### JURISDICTION.

**District Court.**

The jurisdiction of the District Court in this case rests upon 28 U.S.C., Sections 1332, 1337, 2201. The plaintiff is a resident of the State of Oregon (R. 3, 35, 62). The defendant Southern Pacific Company (herein sometimes called Company) is a Delaware corporation doing business in California (R. 4-5, 35, 62). The defendant Brotherhood of Railroad Trainmen (herein sometimes called BRT) is a voluntary association do-

ing business in California (R. 4-5, 35, 62). The amount in controversy, exclusive of interest and costs, exceeds $3,000.00 (R. 5, 35, 62). The case, therefore, is one involving diversity of citizenship for an amount in excess of the jurisdictional requirement, 28 U.S.C., Section 1291, and is also a suit arising under a law of the United States regulating commerce, the Railway Labor Act, 45 U.S.C.A., Section 151, et seq.

The existence of an actual controversy among the parties with respect to the validity under the Railway Labor Act of the Company's conduct in checking off dues in favor of the BRT from wages of employees who have withdrawn from said BRT and revoked their check-off authorizations, conferred jurisdiction on the District Court to declare the rights of the parties under the Federal Declaratory Judgment Act, 28 U.S.C., Section 2201.

Plaintiff has no administrative remedy through the National Railroad Adjustment Board, or otherwise, since there is no dispute concerning the interpretation of a collective bargaining agreement between the parties thereto. This is an action involving alleged infringement by the defendant carrier and the defendant labor organization of rights guaranteed to plaintiff by the Railway Labor Act. This action necessitates a determination of the validity of an agreement under the Railway Labor Act. Therefore, this action lies within the exclusive jurisdiction of the Federal District Court. *Brotherhood of Railroad Trainmen v. Howard,* 343 U. S. 768; *Tunstall v. Brotherhood of Locomotive Firemen and Enginemen,* 323 U. S. 210; *Steele*

*v. Louisville and Nashville R. R. Co.,* 323 U. S. 192; *Brotherhood of Locomotive Firemen and Enginemen v. Mitchell,* C.A. 5, 190 F. 2d 308; *Mount v. Grand International Brotherhood of Locomotive Engineers,* 6 Cir., 226 F. (2d) 604; *Primakow v. Railway Express Agency,* D.C. Wis., 57 F. Supp. 933.

In *Brotherhood of Railroad Trainmen v. Howard, supra,* a collective bargaining agreement was "construed and acted upon" by the railroad and the union as not permitting negro porters to continue to perform any of the duties of a brakeman (343 U. S. at 772). The Court held that the agreement was "to this extent illegal and unenforceable under the Railway Labor Act and that, therefore, the Court had both the jurisdiction and duty to enjoin the illegal acts."

**Court of Appeals.**

This is an appeal from a final decision of the United States District Court for the Northern District of California, Southern Division. This Court has jurisdiction of this appeal by virtue of 28 U.S.C., Section 1291.

---

## STATEMENT OF THE CASE.

Plaintiff-appellant and others similarly situated are employed by the defendant-appellee, Southern Pacific Company (R. 4). They were formerly members of the defendant-appellee Brotherhood of Railroad Trainmen (R. 6).

Effective August 1, 1955, the company and the BRT entered into a dues deduction agreement providing for

deduction of BRT dues and other fees by the Company upon written wage assignment authorizations by BRT members (R. 74-80).

On or before February 1, 1956, appellant and others similarly situated executed wage assignments authorizing the company to deduct sums for monthly dues and for other fees and pay them over to the BRT (R. 6, 35, 62). In compliance with Section 2, Eleventh, of the Railway Labor Act, 45 U.S.C.A. 152 (11), the assignments provided in part as follows (R. 78-79);

> "This authorization may be revoked by the undersigned in writing, after the expiration of one year, or upon the termination date of the aforesaid deduction agreement, or upon the termination of the rules and working conditions agreement, whichever occurs sooner."

More than a year after the expiration of these assignments, appellant and others resigned their membership in the BRT (R. 6, 35, 62). At the time of their resignations, these employees submitted written revocations of their wage assignments both to the Company and to the BRT (R. 6, 20-21, 23-24). The written revocations submitted by the appellant and others to the Company and to the BRT *were identical to the form of revocation attached to the dues deduction agreement* (R. 24, 79-80).

Notwithstanding the fact that the only requirement in the Railway Labor Act is that a revocation be "in writing", and that the Act expressly provides that nothing shall prevent an employee from changing his

membership, the Company and the BRT refused to honor the written revocations of the appellant and others, and continued to deduct dues and pay them over to the BRT (R. 7-12, 29-33, 36). The refusal of the Company and the BRT was based on their interpretation of their dues deduction agreement as providing that a revocation could not be accomplished except upon prior application by the employee to the BRT for revocation forms which had been "reproduced and furnished" by the BRT (R. 25-33, 70-80). No contention was advanced that the revocations in any way failed to comply with the provisions of the Railway Labor Act (R. 24-33, 36-63).

This action was brought on behalf of plaintiff-appellant and others similarly situated for appropriate injunctive relief and a determination that the dues deduction agreement as interpreted and applied by the parties is invalid, and that the refusal of the Company and the BRT to accept appellant's written revocations of wage assignment is a violation of the rights of employees under the Railway Labor Act. Pending hearing on the issue, the Court below issued a temporary restraining order enjoining the Company from deducting any sums from wages due the appellant and others similarly situated and restraining the BRT from receiving such sums and professing to act as the collective bargaining agent for the appellant and others similarly situated (R. 15-16).

Substantially all of the allegations of the Complaint were admitted in the answer filed by the BRT (R. 35-37).

The facts not being in dispute, the appellant and the BRT moved for summary judgment (R. 46-47, 59-61).

The District Court was apparently of the opinion it was not enough that the employee send a written revocation as provided by the Railway Labor Act. It held that a change in dues deductions required "some sort of orderly procedure" and that while the requirement that a revocation card be secured from the BRT as a condition precedent to revocation was "a bit arbitrary", it was "no burden" and was "a reasonable compliance with the Railway Labor Act" (R. 69).

A final order dissolving the temporary restraining order and dismissing the action was accordingly entered on May 24, 1957 (R. 70). Timely notice of appeal was filed by appellant on June 10, 1957 (R. 70).

---

## ARGUMENT.

### THE RAILWAY LABOR ACT PROVIDES WITHOUT LIMITATION THAT A WAGE ASSIGNMENT BY AN EMPLOYEE SHALL BE REVOCABLE IN WRITING AT ANY TIME AFTER THE EXPIRATION OF ONE YEAR.

Section 2, Fourth, of the Railway Labor Act, as amended (45 U.S.C., 152, Fourth), insofar as it deals with a check-off of dues,[1] provides:

> " * * * it shall be unlawful for any carrier * * * to deduct from the wages of employees any dues, fees, assessments, or other contributions payable to labor organizations."

---

[1]The full provisions of Section 2, Fourth, and Eleventh, are set forth in the Appendix, infra, together with excerpts from the legislative history.

Section 2, Eleventh, of the Railway Labor Act (45 U.S.C., 152, Eleventh) excepts certain check-off agreements from the above proscription. In this regard the section reads:

> "Notwithstanding any other provision of this chapter * * * any carrier or carriers as defined in this chapter and a labor organization or labor organizations duly designated and authorized to represent employees in accordance with the requirements of this chapter shall be permitted
>
> * * * * * * *
>
> "(b) to make agreements providing for the deduction by such carrier or carriers from the wages of its or their employees in a craft or class and payment to the labor organization representing the craft or class of such employees, of any periodic dues, initiation fees and assessments (not including fines and penalties) uniformly required as a condition of acquiring or retaining membership; Provided, That no such agreement shall be effective with respect to any individual employee until he shall have furnished the employer with a written assignment to the labor organization of such membership dues, initiation fees, and assessments, *which shall be revocable in writing after the expiration of one year* or upon the termination date of the applicable collective agreement, whichever occurs sooner.
>
> "(c) * * * no agreement made pursuant to subparagraph (b) shall provide for deduction from his wages for periodic dues, initiation fees, or assessments payable to any labor organization *other than that in which he holds membership* * * * Provided, further That *nothing herein or in any such agreement or agreements shall prevent an*

*employee from changing membership from one organization to another organization admitting to membership employees of a craft or class in any of said services.''**

The case at bar presents a clear violation of an absolute right conferred upon employees governed by the Railway Labor Act. The Act guarantees the individual employees the right to discontinue dues deductions, the sole limitation being that the revocation be in writing.

The dues deduction agreement, as interpreted and applied by the BRT and the Company, seeks to impose additional limitations, that is, that the employee must first apply to the BRT for a revocation form which is ''reproduced and furnished'' by that organization. To secure such a form the employee obviously has to contact the local union officials before executing a dues revocation. He is thereby forced to go to the BRT officials and request them to furnish him a particular form for his use in discontinuing payment of dues to them. Such an agreement is designed to make it embarrassing to the employee to change his membership from the BRT and an employee bound by such a restriction cannot terminate dues deductions without first soliciting union grace and overcoming union dissuasion.

The purported requirement that as a condition precedent to revocation the employee first obtain a form ''reproduced and furnished'' by the BRT is a deterrent upon the employees' free choice of bargain-

*Emphasis supplied.

ing representatives. An employee who decides to discontinue his membership in the BRT is entitled to exercise this privilege without having to solicit help from the union or debate the wisdom of his decision with union officials.

The provision imposes limitations not authorized by the Railway Labor Act and is contrary to its entire design. In numerous provisions the Railway Labor Act enjoins all parties against "interference, influence or coercion" in choice of representatives. The employee is repeatedly assured of his right to exercise a free and untrammeled choice of bargaining representatives. One of the basic objectives of the Railway Labor Act is to provide for "the complete independence" of employees in the matter of self-organization. 45 U.S.C.A., Section 2. An employee who must rely on and request the grace of a union before he can leave it has lost some of his independence. It is the exact antithesis of the Railway Labor Act that an employee who desires a change in bargaining representative be dependent on some designated union to furnish him a form "reproduced" by it, and be forced to engage in a debate with the local officials before he can stop paying dues to that organization and choose another.

In representation elections, both under the Railway Labor Act and the Labor-Management Relations Act, the right of the employee to make his choice in secret is carefully preserved. An employee cannot secretly terminate his membership but it is his privilege and right to exercise this decision in the privacy of his

own thoughts independent of obstacles in his path. It is his privilege to exercise it without being forced to run the gauntlet of union embarrassment and dissuasion incident to requesting local union officials to furnish him a form "reproduced" by the union so that he can leave it.

Section 2, Fourth, of the Railway Labor Act prohibits dues deduction agreements and the sole authority for such agreements is derived from Section 2, Eleventh, of the Railway Labor Act. In Section 2, Eleventh, it is explicitly provided that there is no authority to deduct union dues after revocation in writing by the employee or after termination of membership in the assignee organization. Under these provisions, any written notice by the employee which contains a clear direction to revoke his wage assignment is in compliance with the Railway Labor Act.

The provisions of the Act lend no authority whatever for the proposition that the employee can be limited to a particular form of notice of revocation or that he can be restricted to procurement of a form from a particular union. The Act does not prescribe an involved procedure to which the employee must adhere in revoking his wage assignment. It requires only that the revocation be written, thereby excluding oral revocations. There is nothing in the Act which authorizes a carrier and a labor organization to enter into any elaborate recital of conditions as to how such revocations in writing shall be made.

If we assume, *arguendo,* that in the name of "orderly procedures" of bookkeeping, the carrier and a

labor organization may prescribe the form of writing to be used in revoking dues assignments, the record in this case provides no justification for the refusal to honor appellant's revocation. Appellant and other employees executed proper forms, made the deadline of "on or before April 5", and submitted executed revocation cards both to the Company and to the BRT (R. 7-20, 24, 28, 36, 79-80). Their one dereliction, in the view of the BRT, is that they did not use cards which were "reproduced and furnished" by that organization (R. 24, 30, 36).

So far as bookkeeping entries are involved, it was obviously irrelevant whether the revocation cards were "reproduced and furnished" by the BRT or were independently procured or prepared by the employees themselves. This is effectively demonstrated by the conduct of the Company in this case. The Company representative, having received appellant's revocation card along with the others, believed that they were in good order and should be honored. He promptly wrote the Secretary-Treasurer of the BRT local to that effect, saying (R. 28-29):

> "The attached Wage Assignment Revocations are being forwarded to you * * * as you will undoubtedly wish to show the same on the list to be furnished on or before the 5th day of April, 1957, as the names of employees from whose wages no further deductions are to be made."

The suggestion that Section 1(c) of the contract was devised because of orderly bookkeeping procedures is beside the mark. Both the carrier and the

BRT were furnished with exactly the same information on exactly the identical forms attached to the dues deduction agreement, which provided in paragraph 1 (b) in part as follows (R. 74):

> "Revocation of the authorization shall be in the form agreed upon by the parties, copy of which is attached as Attachment 'B' and made a part hereof."

Neither the Company nor the BRT made any objection based on bookkeeping procedures and neither objected as to the form of the revocation. Such objections would have been specious on this record. The BRT refusal was based solely on a tortured interpretation, to which the Company subsequently acceded, of Section 1 (c) of the dues deduction agreement which provides (R. 75):

> "Both the authorization forms and the revocations of the authorization forms shall be reproduced and furnished as necessary by the organization without cost to the company. The organization shall assume full responsibility for the procurement and execution of the forms by employees and for the delivery of such forms to the company."

The BRT seized on a portion of the language of Section 1 (c) with the claim that no revocation form was valid unless it had been "reproduced and furnished" by that organization. While it would appear that Section 1 (c) was inserted only for the purpose of relieving the Company of expenses and obligations in the administration of the check-off, the BRT insisted that this section of the agreement not only di-

vested the Company of any responsibility it might have, but also granted to the BRT the exclusive control of the revocation procedure as against the individual employee (R. 30). The Company then agreed with this contention (R. 7, 12, 63). The result is that the parties have construed the agreement not only as determining their responsibility *inter se,* but also as engrafting limitations on the statutory right of individual employees to submit written revocations of their wage assignments and to have such revocations acted upon with reasonable promptness.

Doubtless it was in the interest of the BRT to make it as difficult as possible for the individual employee to revoke his assignment of wages to that organization. But to say that such an agreement is not burdensome is to ignore realities. It is a deterrent on the freedom of the employee. The statutory right of revocation of dues assignments and the right to exercise a free choice of bargaining representative is as unequivocal and absolute as the right of free speech. The employee is not required to ask the union for permission to exercise his right of free speech and his freedom is not to be restricted by being compelled to make a request of the union before he can exercise his right to terminate an assignment of his wages or change membership.

If the Company and the union are entitled to engraft limitations on the employee's right of revocation of his wage assignment, such as the "form" of the revocation, then they can specify red paper, or 16 pound weight paper, or pica type, or whatever other condi-

tions ingenuity may devise in the name of "orderly procedure". The substantial interests of the union lie in devising a maze of restrictions to discourage individual employees from dues revocations.

To sustain the decision of the District Court is to amend the Railway Labor Act and engraft provisions thereon of an indefinite nature which Congress did not see fit to enact and which will inevitably be extended by whatever restrictions unions may subsequent devise. The judicial extension of such a power will not go unnoticed. In view of the stake, other means will be sought to tighten union check-off agreements so as to exercise a veto on the individual employee's right of revocation and free selection of another collective bargaining representative.

If the Courts are to pass in each case on the question of whether the particular restriction is "reasonable" or "unreasonable" and a "burden", an endless chain of litigation is in prospect. Congress did not intend the Railway Labor Act as an invitation to extensive litigation in the Courts over the merits or demerits of the revocation conditions in each check-off agreement executed by numerous separate unions with the various railroads of the United States. It was never the intent of the Railway Labor Act that recourse be had to the Courts as to whether each particular restriction on revocation in each union agreement is "reasonable" or a "burden". Congress sought only to protect the rights of the individual employee by providing a definite and simple procedure by which he might express his individual desire to discontinue dues deductions

and to change union membership without being bound for all time to pay dues to some union which negotiated a check-off agreement with the carrier.

We respectfully submit that the agreement, as interpreted and applied by the parties thereto, is void to the extent that it violates the provisions of the Railway Labor Act by unauthorized restrictions on the rights of individual employees.

---

## CONCLUSION.

For the foregoing reasons, it is respectfully submitted that the order and judgment of the Court below should be reversed and the case remanded with directions to grant the relief requested in the complaint.

Dated, San Francisco, California,
January 22, 1958.

CARROLL, DAVIS, BURDICK & MCDONOUGH,
*Attorneys for Appellant.*

**(Appendix Follows.)**

# Appendix.

## Appendix

### THE STATUTE.

The pertinent provisions of the Railway Labor Act, as amended (Act of March 20, 1926, c. 347, 47 Stat. 577; Act of June 21, 1934, c. 691, 48 Stat. 1186; Act of Jan. 10, 1951, c. 1220, 64 Stat. 1238, 45 U.S.C. 151 et seq.) are as follows:

(These paragraphs are parts of 45 U.S.C. 152):

"Fourth. Employees shall have the right to organize and bargain collectively through representatives of their own choosing. The majority of any craft or class of employees shall have the right to determine who shall be the representative of the craft or class for the purposes of this chapter. No carrier, its officers or agents shall deny or in any way question the right of its employees to join, organize, or assist in organizing the labor organization of their choice, and it shall be unlawful for any carrier to interfere in any way with the organization of its employees, or to use the funds of the carrier in maintaining or assisting or contributing to any labor organization, labor representative, or other agency of collective bargaining, or in performing any work therefor, or to influence or coerce employees in an effort to induce them to join or remain or not to join or remain members of any labor organization, or to deduct from the wages of employees any dues, fees, assessments, or other contributions payable to labor organizations, or to collect or to assist in the collection of any such dues, fees, assessments, or other contributions: Provided, That

nothing in this chapter shall be construed to prohibit a carrier from permitting an employee, individually, or local representatives of employees from conferring with management during working hours without loss of time, or to prohibit a carrier from furnishing free transportation to its employees while engaged in the business of a labor organization.

"Eleventh. Notwithstanding any other provisions of this chapter, or of any other statute or law of the United States, or Territory thereof, or of any State, any carrier or carriers as defined in this chapter and a labor organization or labor organizations duly designated and authorized to represent employees in accordance with the requirements of this chapter shall be permitted—

"(a) to make agreements, requiring, as a condition of continued employment, that within sixty days following the beginning of such employment, or the effective date of such agreements, whichever is the later, all employees shall become members of the labor organization representing their craft or class: Provided, That no such agreement shall require such condition of employment with respect to employees to whom membership is not available upon the same terms and conditions as are generally applicable to any other member or with respect to employees to whom membership was denied or terminated for any reason other than the failure of the employee to tender the periodic dues, initiation fees, and assessments (not including fines and penalties) uniformly required as a condition acquiring or retaining membership.

"(b) to make agreements providing for the deduction by such carrier or carriers from the wages of its or their employees in a craft or class and payment to the labor organization representing the craft or class of such employees, of any periodic dues, initiation fees, and assessments (not including fines and penalties) uniformly required as a condition of acquiring or retaining membership: Provided, That no such agreement shall be effective with respect to any individual employee until he shall have furnished the employer with a written assignment to the labor organization of such membership dues, initiation fees, and assessments, which shall be revocable in writing after the expiration of one year or upon the termination date of the applicable collective agreement, whichever occurs sooner.

"(c) The requirement of membership in a labor organization in an agreement made pursuant to subparagraph (a) of this paragraph shall be satisfied, as to both a present or future employee in engine, train, yard, or hostling service, that is, an employee engaged in any of the services or capacities covered in the First Division of paragraph (h) of section 153 of this title, defining the jurisdictional scope of the First Division of the National Railroad Adjustment Board, if said employee shall hold or acquire membership in any one of the labor organizations, national in scope, organized in accordance with this chapter and admitting to membership employees of a craft or class in any of said services; and no agreement made pursuant to subparagraph (b) of this paragraph shall

provide for deductions from his wages for periodic dues, initiation fees, or assessments payable to any labor organization other than that in which he holds membership; Provided, however, That as to an employee in any of said services on a particular carrier at the effective date of any such agreement on a carrier, who is not a member of any one of the labor organizations, national in scope, organized in accordance with this chapter and admitting to membership employees of a craft or class in any of said services, such employee, as a condition of continuing his employment, may be required to become a member of the organization representing the craft in which he is employed on the effective date of the first agreement applicable to him; Provided, further, That nothing herein or in any such agreement or agreements shall prevent an employee from changing membership from one organization to another organization admitting to membership employees of a craft or class in any of said services.

"(d) Any provisions in paragraphs Fourth and Fifth of this section in conflict herewith are to the extent of such conflict amended. May 20, 1926, c. 347, § 2, 44 Stat. 577; June 21, 1934, c. 691, § 2, 48 Stat. 1186; June 25, 1948, c. 646, § 1, 62 Stat. 909; Jan. 10, 1951, c. 1220, 64 Stat. 1238."

---

LEGISLATIVE HISTORY.

As shown above, Section 2, Fourth, of the Railway Labor Act, as amended in 1934, prohibited all check-

ing off of dues to any labor organization. In 1951 Congress adopted Section 2, Eleventh, which expressly modifies Section 2, Fourth, to permit checking off of dues to the extent therein set forth. The legislative history of that section shows that Congress intended that the operation of the check-off system be subject to the control of the individual employees rather than to contracts between carriers and labor organizations.

The bills upon which hearings were held in Congress, preceding enactment of Section 2, Eleventh, were S. 3295, 81st Cong., 2nd Sess., and H.R. 7789, 81st Cong., 2nd Sess. These bills enabled carriers and labor organizations to enter into collective bargaining agreements providing for the check-off system. Neither bill, however, as originally introduced, required that the individual employee give his assent to the deductions from his wages.[2]

Although the Senate Bill was unanimously reported out of committee, Senator Taft and other members did not feel that the bill afforded adequate protection to the individual employees, such as is contained in the National Labor Relations Act.[3] Subsequent to the reporting of the bill and prior to debate on the matter, Senator Taft and Senator Hill devised certain amend-

---

[2]S. 3295 as introduced is printed in Hearings Before a Subcommittee of the Committee on Labor and Public Welfare, U. S. Senate, on S. 3295, p. 1, 81st Cong., 2nd Sess. (1950). H.R. 7789 as introduced is printed in Hearings Before the Committee on Interstate and Foreign Commerce, House of Representatives, on H.R. 7789, p. 1, 81st Cong., 2nd Sess. (1950).

[3]Supplemental Views of Senators Taft, Smith and Donnell, S. Rep. No. 2262, 81st Cong., 2nd Sess., 1950. See also 96 Cong. Rec. 16267.

ments to the bill which made the wage deductions dependent upon the individual authorizations of the employees rather than upon the collective bargaining agreements between the carriers and the labor organizations.[4] Senator Hill, manager of the bill, explained the effect of the bill as amended to members of the Senate concerned about the rights of the individual employees.[5]

> "The bill would also permit a carrier and a labor organization duly authorized to represent employees under the Act to enter into agreements providing for the check-off from wages of employees of periodic dues, initiation fees and assessments. But no such agreement is to be effective with respect to any individual employee unless first authorized in writing by him to the employer.
>
> "Mr. Lucas. Is it not a fact that it is absolutely within the discretion of the employee as to whether he requests the check-off?
>
> "Mr. Hill. It is wholly and entirely within the discretion of the employee, and unless the employee sits down and writes on *a piece of paper* an authorization to the employer to turn dues, fees and assessments over to the labor organization and signs his name to the authorization there is no check-off so far as the employee is concerned." (Emphasis added.)

Also pertinent in this regard is the following exchange between Senator Wiley and Senator Hill:

---

[4] 96 Cong. Rec. 15735.

[5] 96 Cong. Rec. 15736-15737.

"Mr. Wiley. I was interested in one phase of the question. I have been in contact with a number of laboring men. I talked with many of them during my campaign. I should like to know what the Senator's statement was in relation to the check-off and whether that is compulsory. Some laboring men who have spoken to me, men who are good union members, have stated they do not like the system very well. The Senator said something to the effect that they must indicate in writing their choice or willingness or desire.

"Mr. Hill. * * * In other words, before a single penny can be deducted from the salary of the individual employee for the normal dues or assessments, he must give a written assignment to the company, so that it can pay that money to the union. *Then he has a right, within a year, to revoke that assignment if he does not like the way it works, or if he wants to put an end to the deduction.*" (Emphasis added.)

Similarly when the bill reached the House its sponsors were careful to point out the protection afforded individual employees through the right of revocation.[6]

The foregoing legislative history demonstrates that Congress specifically rejected proposals which would have left the operation of the check-off system subject solely to the various provisions of collective bargaining agreements between the carriers and the unions, such as the "dues deduction agreement" here in question.

---

[6]See Comments of Mr. Wolverton, 96 Cong. Rec. 17051.

# No. 15644

In the

# United States Court of Appeals

*For the Ninth Circuit*

---

MARION S. FELTER, on behalf of himself and others similarly situated,
*Appellant,*

vs.

SOUTHERN PACIFIC COMPANY, a corporation; BROTHERHOOD OF RAILROAD TRAINMEN, a voluntary association; J. J. CORCORAN, as General Chairman, General Committee, Brotherhood of Railroad Trainmen; J. E. TEAGUE, as Secretary, General Committee, Brotherhood of Railroad Trainmen,
*Appellees.*

---

## Brief for Appellee Southern Pacific Company

---


BURTON MASON
W. A. GREGORY
H. S. LENTZ
65 Market Street
San Francisco 5, California

*Attorneys for Appellee Southern Pacific Company*





PARKER PRINTING COMPANY, 180 FIRST STREET, SAN FRANCISCO 5

## SUBJECT INDEX

## TABLE OF AUTHORITIES CITED

### Cases



### Statutes

No. 15,644

In the

# United States Court of Appeals

*For the Ninth Circuit*

---

| | |
|---|---|
| MARION S. FELTER, on behalf of himself and others similarly situated, *Appellant,* vs. SOUTHERN PACIFIC COMPANY, a corporation; BROTHERHOOD OF RAILROAD TRAINMEN, a voluntary association; J. J. CORCORAN, as General Chairman, General Committee, Brotherhood of Railroad Trainmen; J. E. TEAGUE, as Secretary, General Committee, Brotherhood of Railroad Trainmen, *Appellees.* | |

## Brief for Appellee Southern Pacific Company

---

### APPELLEE'S STATEMENT OF THE CASE

This is a suit for declaratory and injunctive relief brought pursuant to 28 U.S.C. 1332, 1337 and 2201, for the purpose of determining a question in actual controversy between appellant, Marion S. Felter and others similarly situated, and appellees, Southern Pacific Company (hereinafter referred to as the "Company") and Brotherhood of Railroad Trainmen (hereinafter referred to as "B.R.T."), to-wit, the ques-

tion of the validity under the Railway Labor Act (45 U.S.C. 152, Eleventh) of a written collective bargaining agreement which became effective August 1, 1955 (R. 74-80). This agreement, which is now and at all times material has been in effect between the Company and the B.R.T., provides in effect that the Company shall deduct sums for periodic dues, initiation fees, assessments and insurance (not including fines and penalties), payable to the B.R.T. by members thereof from "wages earned in any of the services or capacities covered in Section 3, First (h) of the Railway Labor Act defining the jurisdictional scope of the First Division, National Railroad Adjustment Board, upon the written and unrevoked authorization of a member in the form agreed upon by the parties hereto * * *." This arrangement is commonly (and hereinafter) referred to as a "Dues Deduction Agreement." This Dues Deduction Agreement (R. 74-80) provides (in part):

> "[1] (c). Both the authorization forms and the revocation of authorization forms shall be reproduced and furnished as necessary by the Organization without cost to the Company. *The Organization shall assume full responsibility for the procurement and execution of the forms by employes and for the delivery of such forms to the Company.*
>
> 2. *Deductions as provided for herein shall be made by the Company in accordance with certified deduction lists furnished to the Division Superintendent by the Treasurer of the Local Lodge of which the employe is a member. Such lists, together with assignment and revocation of assignment forms, shall be furnished to the Division Superintendent on or before the 5th day of each month in which the deduction or termination of deduction is to become effective as hereinafter provided.* The original lists furnished shall show the employe's name, employe account number, and the amount to be deducted in the form approved by the Company.

*Thereafter, two lists shall be furnished each month by the Treasurer of the Local Lodge to the Division Superintendent as follows:*

(a). A list showing any changes in the amounts to be deducted from the wages of employes with respect to whom deductions are already being made. Such list shall show both the amounts previously authorized to be deducted and the new amounts to be deducted; *also the names of employes from whose wages no further deductions are to be made which shall be accompanied by revocation of assignment forms signed by each employe so listed.* Where no changes are to be made the list shall so state.

(b). A list showing additional employes from whose wages the Company shall make deductions as herein provided, together with an assignment authorization form signed by each employe so listed. Where there are no such additional employes the list shall so state." (Emphasis supplied.)

The Company has scrupulously complied with the terms of the Dues Deduction Agreement.

Appellant and others similarly situated executed wage assignments in accordance with the Dues Deduction Agreement (R. 67). Thereafter, appellant and others submitted revocations of wage assignment to the Company and the B.R.T. (R. 67) which were neither reproduced nor furnished by the B.R.T. as required by the Dues Deduction Agreement (R. 24, 28, 74-75). Those revocations which were submitted to the Company were forwarded to the B.R.T. to be processed in accordance with the Dues Deduction Agreement (R. 28-30). Appellant was promptly notified by the B.R.T. that the revocation of assignment which he had submitted could not be accepted because it had not been reproduced and furnished by the B.R.T. as required by the Dues Deduction Agreement (R. 25). The B.R.T. then mailed to appel-

lant a form which would be accepted by the B.R.T. (R. 25). Appellant never returned the form furnished to him by the B.R.T. (R. 25-26).

On April 12, 1957, appellant filed complaint for declaratory and injunctive relief in the United States District Court (R. 1-10). Appellees B.R.T. and Southern Pacific Company filed answers (R. 35, 62). There being no substantial dispute as to the facts, the B.R.T. and the appellant moved for summary judgment or dismissal (R. 46-47, 59-61). On May 24, 1957, United States District Judge Edward P. Murphy (R. 65-70) held that "the dues deduction agreement as interpreted by the defendants is a reasonable compliance with the Railway Labor Act and not violative of plaintiff's rights under the Act", and dissolved the temporary restraining order and dismissed the action.

## ARGUMENT

**I. As stated in the opinion of the District Court, the only question is whether the procedure established by the Dues Deduction Agreement places such an unreasonable burden on employees who wish to withdraw from the brotherhood that it operates as a violation of an employee's right to change unions under the Railway Labor Act.**

There is not, nor can there be, any dispute concerning interpretation of the Dues Deduction Agreement. The agreement is clear and explicit. It provides that revocations of wage assignments must be on forms "reproduced and furnished" by the B.R.T. and that the forms must be delivered to the Company through the B.R.T. (R. 75). The Court is concerned herein only with the question of whether these requirements are valid under Section 2, Eleventh of the Railway Labor Act (45 U.S.C. § 152, Eleventh).

Appellant, in his brief, points out that the Railway Labor Act provides that employees shall be free of "interference,

influence or coercion" in their choice of representatives (45 U.S.C. § 152, Third). Moreover, the Act also provides that nothing "shall prevent an employee from changing membership from one organization to another organization" (45 U.S.C. § 152, Eleventh (c)). However, the statement of appellant that the provisions of the Dues Deduction Agreement here under consideration constitute limitations not authorized by the Railway Labor Act and are "contrary to its entire design" is erroneous (Appellant's Brief, p. 9). There is absolutely nothing in the Railway Labor Act or in any other Act of Congress to indicate that the design of the Act or the intent of Congress was to insure that an employee would have absolute freedom to skip from one union to another. The purpose of the Railway Labor Act in insuring that certain employees may change unions has been clearly stated by the United States Supreme Court in *Pennsylvania R. Co. v. Rychlik,* 352 U.S. 480 (1957) as follows (p. 492):

> "It thus becomes clear that the only purpose of Section 2, Eleventh (c) was a very narrow one: to prevent compulsory dual unionism or the necessity of changing from one union to another when an employee temporarily changes crafts. The aim of the Section, which was drafted by the established unions themselves, quite evidently was not to benefit rising new unions by permitting them to recruit members among employees who are represented by another labor organization. Nor was it intended to provide employees with a general right to join unions other than the designated bargaining representative of their craft, except to meet the narrow problem of intercraft mobility. This is made particularly clear when the provision is taken in the context of American labor relations in general. The National Labor Relations Act contains no parallel to subsection (c), and employees under a union-shop

contract governed by that Act must join and maintain membership in the union designated as the bargaining representative or suffer discharge. Similarly, subsection (c) does not apply to *nonoperating* employees, where the problem of seasonal intercraft movement does not exist. Railroad employees such as clerks working under a union-shop contract have no right at all to join a union other than the bargaining representative. In other words, once a union has lawfully established itself for a period of time as the authorized bargaining representative of the employees under a union-shop contract, Congress has never deemed it to be a 'right' of employees to choose between membership in it and another competing union. If Congress intended to confer such a right, it would scarcely have denied the right to nonoperating employees of the railroads or industrial employees under the National Labor Relations Act. The purpose of Section 2, Eleventh (c) was simply to solve the problem of intercraft mobility under railroad union-shop contracts."

Thus, while the appellant in this case does have the privilege of changing unions, it cannot be contended that it was the intent of Congress to free the privilege of all restrictions no matter how reasonable they might be. Therefore, as correctly stated by the trial court (R. 69):

> "The only question is whether the procedure established by this agreement places such an unreasonable burden on employees who wish to withdraw from the Brotherhood that it operates as a violation of an employee's right under the Act to change unions."

## II. The provisions of the Dues Deduction Agreement comply with the Railway Labor Act and are not violative of appellant's rights under the Act.

### A. The requirement that revocations be transmitted to the Company through the B.R.T. is reasonable and not violative of the Railway Labor Act.

There are two separate requirements of the Dues Deduction Agreement. One is that the revocation must be on forms "reproduced and furnished" by the B.R.T. and the other is that the forms must be delivered to the Company through the B.R.T., together with certified deduction lists on or before the 5th day of the month in which the change in deductions is to become operative (R. 75). Clearly, appellee Company is vitally concerned with the latter requirement.

The Company receives no benefit whatever from the existence of a Dues Deduction Agreement. Such an agreement is solely for the benefit of the Organization and those employees who desire to avoid the inconvenience of making their own individual payments to the Organization of which they are members. Under such circumstances, it is only proper that the Union, the representative of the employee, should have the burden of insuring that revocations are not forgeries, take the responsibility for calculating the amounts to be deducted, be responsible for keeping accurate and up-to-date lists and do such other bookkeeping as does not necessarily need to be performed by the Company. In fact, such an arrangement clearly serves the purpose of avoiding disputes and controversies between the Union and the Company and is therefore in accord with the express purpose of the Railway Labor Act (45 U.S.C. § 152, First). Moreover, there is no requirement in the Railway Labor Act that the Company enter into a Dues Deduction Agreement, and it would undoubtedly be justified in refusing to make such an agreement, from which it derives absolutely no benefit, without the establishment of an orderly procedure. Unless

the Act contemplated the establishment of such an orderly procedure, it would seem unlikely that any Company would enter into a Dues Deduction Agreement and that portion of the statute allowing such agreements would become a nullity. Certainly Congress had no such intent.

It is clearly necessary that both the B.R.T. and the Company know when an employee revokes his existing authorization for the deduction of his dues, and the Union is obviously the logical party to receive and determine the validity of any revocation in the first instance. The requirement that revocations be transmitted to the Company through the B.R.T. in no way interferes with the right of the employee to make such revocations, and does not constitute a burden of any kind upon the employee. It is just as easy for the employee to send the revocation to the B.R.T. as it is to send it to the Company.

**B. The requirement that revocation forms be "reproduced and furnished" by the B.R.T. is reasonable and not violative of the Railway Labor Act.**

The Railway Labor Act (45 U.S.C. § 152, Eleventh (b)) says nothing as to the procedure to be followed in making deductions from wages except that authorizations and revocations thereof be in writing. However, it is obvious that some form of reasonable and orderly procedure must be established if confusion and misunderstandings are to be avoided or, at least, reduced to an absolute minimum. What the procedure shall be has been left to the parties when and if they "make agreements providing for the deduction".

The requirement that revocation forms be "reproduced and furnished" by the B.R.T. also serves another desirable objective. When the B.R.T. furnishes its own forms either in person or by mail to persons whom it knows to be members or former members, it may feel reasonably assured

when the correct form is returned that it is not a forgery and is the result of a considered decision of the employee. The B.R.T. has just as much right to be reasonably protected against spurious revocations as does the employee to make a revocation.

Certainly it is no more of a burden to ask the B.R.T. to provide appellant with the correct form than it would be for him to make such a request to some other union. Moreover, appellant voluntarily followed the agreement and obtained the correct form from the B.R.T. at the time he made his original authorization. What could be more logical than that he follow the same procedure when revoking the authorization?

Finally, it is difficult to see how requiring the appellant to request a correct form from the B.R.T. can constitute an unreasonable burden, or any burden at all, upon his right to change unions, since he obviously cannot change his union affiliation without informing the B.R.T. of his withdrawal.

**C. Appellant's failure to have his revocation accepted was due entirely to his own refusal to send in the correct form to the B.R.T.**

In his brief, appellant contends at length that if required to obtain the proper form from the B.R.T., he may be subjected to pressures not to revoke his wage assignment and above all not to change his union affiliation. However, there is absolutely nothing either in the record or in the Dues Deduction Agreement to give substance to these alleged fears. Appellee Southern Pacific Company concedes that if the B.R.T. refused or failed to furnish the correct and acceptable revocation forms upon request of the appellant, or if the B.R.T. refused to furnish such forms, unless and until the appellant submitted to efforts to persuade him not to change his union affiliation, the appellant would be sub-

jected to unreasonable burdens and would be entitled to effect a revocation of his wage assignment by other means.

However, such conduct, besides being an unreasonable burden upon the right of plaintiff to change unions, would also constitute a violation of the Dues Deduction Agreement itself. Clearly, the Dues Deduction Agreement contemplates that the B.R.T. shall have the acceptable forms in readiness and that the B.R.T. will furnish them promptly to an employee who wishes to revoke his wage assignment. Moreover, the record clearly demonstrates that the B.R.T. *did* have such forms available and *did* furnish the forms promptly to employees who requested them, including the appellant, without dilatory tactics of any kind. In fact, the record clearly shows that as soon as the B.R.T. became aware of the fact that appellant wished to revoke his wage assignment, the B.R.T. sent him the correct form to fill out even though appellant had never requested that the correct form be sent to him. Moreover, this form was mailed to him and no personal contact with the B.R.T. was requested or required (R. 25). Thus, despite all the appellant's protestations that the B.R.T. could refuse to furnish the forms or might refuse to furnish such forms except under circumstances whereby the appellant could be subjected to pressures not to change his union affiliation, the fact is that none of these contentions are supported by either the Dues Deduction Agreement itself, or by the actual facts. The only reason appellant failed to accomplish his objective of revoking his wage assignment, was his refusal to fill out and return the correct form, which was actually furnished to him by the B.R.T.

**b. Appellant should not be allowed to repudiate the contract which he has taken advantage of and which was made on his behalf by his collective bargaining representative.**

Appellant in this case is in the position of now attempting to disregard a contract which he has accepted and followed so long as he considered it convenient to do so. The B.R.T. in entering into the Dues Deduction Agreement acted as the chosen representative of the appellant. Agreements made by the collective bargaining representative are binding upon the employees represented by the B.R.T. *Atlantic Coast Line R.R. v. Pope,* 119 F. 2d 39 (4th Cir. 1941). Even if this were not true, appellant, by authorizing deductions from his wages pursuant to the agreement, ratified and accepted the terms thereof. Appellant knew the terms of the agreement because he obtained the correct form to make his original wage deduction authorization, nor has appellant ever contended that he didn't know that the agreement provided that the revocation forms were to be "reproduced and furnished" by the B.R.T. In other words, appellant knew the terms of the agreement; he knew he had to obtain the form from the B.R.T.; the B.R.T. voluntarily furnished him with the correct form, and the only reason appellant failed to have the Company cease making deductions from his wages in accordance with his original authorization was his apparently deliberate failure to follow the terms of the contract with which he was familiar and pursuant to which he had originally authorized the deductions.

## CONCLUSION

In summary, appellee Southern Pacific Company contends that a Dues Deduction Agreement may provide reasonable and orderly procedures governing its operation and the only right of appellant is to be free of unreasonable burdens

upon his privilege of changing unions. Moreover, both the Dues Deduction Agreement and the facts of this case show that the method of revocation is reasonable and serves the purpose of avoiding disputes in accordance with the express purpose of the Railway Labor Act and does not constitute an unreasonable burden upon appellant's privilege of changing unions. Therefore, it is respectfully submitted that the decision of the trial court is correct and should be affirmed.

Respectfully submitted,

Burton Mason
W. A. Gregory
H. S. Lentz
*Attorneys for Appellee,*
*Southern Pacific Company.*

Dated: February 20, 1958.

# No. 15,644

IN THE

# United States Court of Appeals

## For the Ninth Circuit

---

MARION S. FELTER, on behalf of himself and others similarly situated,

*Appellant,*

vs.

SOUTHERN PACIFIC COMPANY, a corporation; BROTHERHOOD OF RAILROAD TRAINMEN, a voluntary association; J. J. CORCORAN, as General Chairman, General Committee, Brotherhood of Railroad Trainmen; J. E. TEAGUE, as Secretary, General Committee, Brotherhood of Railroad Trainmen,

*Appellees.*

---

## BRIEF OF APPELLEES

**BROTHERHOOD OF RAILROAD TRAINMEN, a Voluntary Association; J. J. CORCORAN, as General Chairman, General Committee, Brotherhood of Railroad Trainmen; J. E. TEAGUE, as Secretary, General Committee, Brotherhood of Railroad Trainmen.**

---

HILDEBRAND, BILLS & MCLEOD,
1212 Broadway, Oakland 12, California,
*Attorneys for Appellees.*

D. W. BROBST,
Tribune Tower, Oakland 12, California,
*Of Counsel.*

## Subject Index

## Table of Authorities Cited

### Cases



### Statutes

No. 15,644

IN THE

# United States Court of Appeals

## For the Ninth Circuit

---

IARION S. FELTER, on behalf of himself and others similarly situated,

*Appellant,*

vs.

OUTHERN PACIFIC COMPANY, a corporation; BROTHERHOOD OF RAILROAD TRAINMEN, a voluntary association; J. J. CORCORAN, as General Chairman, General Committee, Brotherhood of Railroad Trainmen; J. E. TEAGUE, as Secretary, General Committee, Brotherhood of Railroad Trainmen,

*Appellees.*

## BRIEF OF APPELLEES

**ROTHERHOOD OF RAILROAD TRAINMEN, a Voluntary Association; J. J. CORCORAN, as General Chairman, General Committee, Brotherhood of Railroad Trainmen; J. E. TEAGUE, as Secretary, General Committee, Brotherhood of Railroad Trainmen.**

---

### STATEMENT OF THE CASE.

This is a suit for declaratory and injunctive relief ought pursuant to 28 U.S.C. 1332, 1337 and 2201, r the purpose of determining a question in actual ntroversy between appellant, Marion S. Felter and

others similarly situated, and appellees, Southern Pacific Company, a corporation; Brotherhood of Railroad Trainmen, a voluntary association; J. J. Corcoran, as General Chairman, General Committee, Brotherhood of Railroad Trainmen; J. E. Teague, as Secretary, General Committee, Brotherhood of Railroad Trainmen, to-wit, the question of the validity under the Railway Labor Act (45 U.S.C. 152, Eleventh) of a written collective bargaining agreement which became effective August 1, 1955 (R. 74-80). This agreement, which is now and at all times material has been in effect between the Southern Pacific Company and the Brotherhood of Railroad Trainmen, provides in effect that the Southern Pacific Company shall deduct sums for periodic dues, initiation fees, assessments and insurance (not including fines and penalties), payable to the Southern Pacific Company by members thereof from "wages earned in any of the services or capacities covered in Section 3, First (h) of the Railway Labor Act defining the jurisdictional scope of the First Division, National Railroad Adjustment Board, upon the written and unrevoked authorization of a member in the form agreed upon by the parties hereto * * * *." This arrangement is commonly referred to as a "Dues Deduction Agreement." This Dues Deduction Agreement (R. 74-80) provides (in part):

> "1. (a) Subject to the terms and conditions of this agreement the Company shall deduct sums for periodic dues, initiation fees, assessments and insurance (not including fines and penalties), payable to the Organization by members thereof

from wages earned in any of the services or capacities covered in Section (3) First (h) of the Railway Labor Act defining the jurisdictional scope of the First Division, National Railroad Adjustment Board, upon the written and unrevoked authorization of a member in the form agreed upon by the parties hereto, copy of which is attached as Attachment 'A' and made a part hereof.

(b) The signed authorization may, in accordance with its terms, be revoked in writing at any time after the expiration of one year from the date of its execution, or upon the termination of this agreement, or upon the termination of the rules and working conditions agreement between the parties, whichever occurs sooner. Revocation of the authorization shall be in the form agreed upon by the parties, copy of which is attached as Attachment 'B' and made a part hereof.

(c) Both the authorization forms and the revocation of authorization forms shall be reproduced and furnished as necessary by the Organization without cost to the Company. The Organization shall assume full responsibility for the procurement and execution of the forms by employes and for the delivery of such forms to the Company.

2. Deductions as provided for herein shall be made by the Company in accordance with certified deduction lists furnished to the Division Superintendent by the Treasurer of the Local Lodge of which the employe is a member. Such lists, together with assignment and revocation of assignment forms, shall be furnished to the Division Superintendent on or before the 5th day of

each month in which the deduction or termination of deduction is to become effective as hereinafter provided. The original lists furnished shall show the employe's name, employe account number, and the amount to be deducted in the form approved by the Company. Thereafter, two lists shall be furnished each month by the Treasurer of the Local Lodge to the Division Superintendent as follows:

(a) A list showing any changes in the amounts to be deducted from the wages of employes with respect to whom deductions are already being made. Such list shall show both the amounts previously authorized to be deducted and the new amounts to be deducted; also the names of employes from whose wages no further deductions are to be made which shall be accompanied by revocation of assignment forms signed by each employe so listed. Where no changes are to be made the list shall so state.

(b) A list showing additional employes from whose wages the Company shall make deductions as herein provided, together with an assignment authorization form signed by each employe so listed. Where there are no such additional employes the list shall so state."

## ARGUMENT.

### I.

### THE ONLY QUESTION IS WHETHER THE PROVISIONS OF THE DUES DEDUCTION AGREEMENT PLACES AN UNREASONABLE BURDEN ON MEMBERS OF THE BROTHERHOOD OF RAILROAD TRAINMEN WHO WISH TO WITHDRAW FROM THE BROTHERHOOD SO AS TO VIOLATE SUCH MEMBER'S RIGHT TO CHANGE UNIONS UNDER THE RAILWAY LABOR ACT.

There is nothing confusing in the terms of the agreement in question. It specifically provides that where a member who has signed a written authorization for the employer Southern Pacific Company to deduct from his earnings membership fees that a revocation of that authorization must be made upon a form "reproduced and furnished" by the Brotherhood of Railroad Trainmen which forms in turn are to be presented to the employer Southern Pacific Company through the Brotherhood of Railroad Trainmen. This Court is concerned only with the question of whether such a requirement as far as revocation of a dues deduction authorization is concerned is valid under Section 2, Eleventh, of the Railway Labor Act (45 U.S.C. Section 152, Eleventh). The exact language of the agreement is as follows:

> "(c) Both the authorization forms and the revocation of authorization forms shall be reproduced and furnished by the organization without cost to the company. The organization shall assume full responsibility for the procurement and execution of the forms by employees and for the delivery of such forms to the company." (R. 75.)

Appellant in his brief states that the Railway Labor Act provides that employees shall be free of "interference, influence or coercion" in their choice of representatives (45 U.S.C. Section 152, Third). The Act also provides that nothing "shall prevent an employee from changing membership from one organization to another organization" (45 U.S.C. Section 152, Eleventh (c)).

The argument of appellant that the provisions of the Dues Deduction Agreement here under consideration constitute limitations not authorized by the Railway Labor Act and are "contrary to its entire design" is obviously wrong (Appellant's Brief, page 9).

There is absolutely nothing in the Railway Labor Act or in any other legislation to indicate that the design of the act or the intent of Congress was to insure that an employee would have absolute freedom to change from one union to another. The purpose of the Railway Labor Act in insuring that certain employees may change unions has been clearly set out by the United States Court in *Pennsylvania R. Co. v. Rychlik,* 352 U.S. 480 (1957), as follows:

> "It thus becomes clear that the only purpose of Section 2, Eleventh (c) was a very narrow one: to prevent compulsory dual unionism or the necessity of changing from one union to another when an employee temporarily changes crafts. The aim of the Section, which was drafted by the established unions themselves, quite evidently was not to benefit rising new unions by permitting them to recruit members among employees who

are represented by another labor organization. Nor was it intended to provide employees with a general right to join unions other than the designated bargaining representative of their craft, except to meet the narrow problem of intercraft mobility. This is made particularly clear when the provision is taken in the context of American labor relations in general. The National Labor Relations Act contains no parallel to subsection (c), and employees under a union-shop contract governed by that Act must join and maintain membership in the union designated as the bargaining representative or suffer discharge. Similarly subsection (c) does not apply to *nonoperating* employees, where the problem of seasonal intercraft movement does not exist. Railroad employees such as clerks working under a union-shop contract have no right at all to join a union other than the bargaining representative. In other words, once a union has lawfully established itself for a period of time as the authorized bargaining representative of the employees under a union-shop contract, Congress has never deemed it to be a 'right' of employees to choose between membership in it and another competing union. If Congress intended to confer such a right, it would scarcely have denied the right to non-operating employees of the railroads or industrial employees under the National Labor Relations Act. The purpose of Section 2, Eleventh (c) was simply to solve the problem of intercraft mobility under railroad union-shop contracts."

From this, it is apparent that the appellant has the privilege of changing unions. However, it cannot be seriously contended that it was the intent of Congress

that this privilege should be free of all restrictions no matter how reasonable they might be. The trial Court therefore clearly stated as follows:

> "The only question is whether the procedure established by this agreement places such an unreasonable burden on employees who wish to withdraw from the Brotherhood that it operates as a violation of an employee's right under the act to change unions."

---

## II.

**THE PROVISIONS OF THE DUES DEDUCTION AGREEMENT HERE UNDER ATTACK ARE IN ACCORDANCE WITH THE RAILWAY LABOR ACT AND ARE ADMINISTRATIVE IN CHARACTER AND DO NOT VIOLATE APPELLANT'S RIGHTS UNDER THE ACT.**

**(a) The Requirement That Revocations Be Transmitted to the Southern Pacific Company by the Brotherhood of Railroad Trainmen Is a Reasonable Procedure and Not Violative of the Railway Labor Act.**

There are two distinct requirements of the Dues Deduction Agreement with reference to revocation of a dues deduction authorization. One is that the revocation must be on forms "reproduced and furnished" by the Brotherhood of Railroad Trainmen and the other is that the forms must be delivered to the Southern Pacific Company through the Brotherhood of Railroad Trainmen together with certified deduction lists on or before the 5th day of the month in which the change in deductions is to become operative (R. 75). The requirement that a revocation must be presented by the Brotherhood of Railroad Train-

nen to the Southern Pacific Company is certainly a easonable requirement for the orderly administration f the Dues Deduction Agreement. The Brotherhood f Railroad Trainmen was the representative of the ppellant and it had the burden of insuring the outhern Pacific Company that revocations were not orgeries and that the calculations in the amounts to e deducted were accurate which, in turn, would effect ne responsibility of the Brotherhood of Railroad rainmen for keeping accurate and up-to-date lists. uch a provision clearly serves the purpose of avoid-ng disputes and controversies that might arise be-veen the Brotherhood of Railroad Trainmen and the outhern Pacific Company and is in accord therefore ith the express purpose of the Railway Labor Act 45 U.S.C. Section 152, First). Unless the revocation sent through the Brotherhood of Railroad Train-nen, there is no way that the Brotherhood of Rail-oad Trainmen would know when an employee had evoked or attempted to revoke his existing author-ation for the deduction of his dues. Such a revoca-on without coming through the Brotherhood of Rail-oad Trainmen, if accepted by the Southern Pacific ompany, would only lead to confusion and dispute. onsequently, the requirement that revocations be ransmitted through the Brotherhood of Railroad rainmen to the Southern Pacific Company in no way nterferes with the right of the employee to make uch a revocation but simply sets up a reasonable and ensible procedure for the orderly administration f the Dues Deduction Agreement. It is just as

simple and just as easy for the employee to send the revocation to the Brotherhood of Railroad Trainmen as it is to send it to the Southern Pacific Company and it is a lot less confusing and certainly prevents any misunderstanding or dispute. Certainly, no serious argument can be made that this in any way interferes with a member's right or privilege to change from one union to another. The only purpose of the provisions of the Dues Deduction Agreement requiring that a revocation be sent through the members' representative union, here, the Brotherhood of Railroad Trainmen, is to simplify the administration of the Dues Deduction Agreement, a purely procedural matter having nothing to do with the substantial rights of the appellant.

**(b) The Requirement in the Dues Deduction Agreement That Revocation Forms Be "Reproduced and Furnished" by the Brotherhood of Railroad Trainmen Is Reasonable and Does Not Violate the Railway Labor Act.**

The Railway Labor Act (45 U.S.C. Section 152, Eleventh (b)) contains nothing with reference to the procedure to be followed in making deductions from wages except that the authorizations and revocations shall be in writing. As to how such authorizations and revocations are to be processed or what procedure is to be followed is not set out in the Act. Unless some orderly procedure is established by agreement, such as was done here, confusion and misunderstanding would result. If this confusion and misunderstanding is to be avoided or reduced to a minimum a procedure such as was established by the agreement

ıere must be followed. The procedure to be followed ıas been left to the parties when and if they "make ıgreements providing for the deduction." The re-ıuirement that revocation forms be "reproduced and urnished" by the Brotherhood of Railroad Trainmen erves a desirable objective. By requiring that the epresentative union of the employee, here the 3rotherhood of Railroad Trainmen, furnish its own orm for revocation, either in person or by mail, it an feel reasonably assured when the correct form is eturned that it is not a forgery and is the result of considered decision of the employee and that he has ot been the victim of a raid or has been high-pres-ured or unduly influenced. Certainly, the Brother-ood of Railroad Trainmen has the right to establish y the provisions of its Dues Deduction Agreement egular steps to be followed by the members so as to e reasonably protected against spurious revocations nd which would also protect the employee against urried action thus aiding in the making of a proper evocation. It is no more of a burden for a member ) ask his union, here the Brotherhood of Railroad 'rainmen, to provide him with a correct form than would be for him to make a request to some other nion. Here, the evidence shows that immediately pon receipt of a letter stating that appellant had esigned from membership a form for revocation of is dues deduction authorization was mailed without omment to appellant. He was no more restricted, oerced, or otherwise detered from properly revoking is authorization for dues deductions than he was

when he voluntarily followed the agreement and obtained the correct form from the Brotherhood of Railroad Trainmen at the time he made his original authorization. It would be perfectly logical for him to follow the same procedure he followed in authorizing dues deductions when he desired to revoke the authorization. Certainly, there is nothing unreasonable in requiring that he request the proper form from the Brotherhood of Railroad Trainmen either by phone, or in writing, where there is no evidence that the Brotherhood of Railroad Trainmen in any way hesitated in supplying the proper form for revocation when requested. Had there been the slightest interference with the right of appellant to obtain a proper form to revoke his authorization, then there might have been some ground for claiming his right or privilege to change unions had been obstructed. It is difficult to see how requiring the appellant to follow the procedure set out in the Dues Deduction Agreement to request a correct form from the Brotherhood of Railroad Trainmen can constitute an unreasonable burden or any burden at all upon appellant's right to change unions since he obviously cannot change his union affiliations without informing the Brotherhood of Railroad Trainmen of his withdrawal and, in the withdrawal, he certainly can request a form for revocation of his dues deduction authorization.

Appellant's failure to have his revocation accepted by the Southern Pacific Company was due entirely

o his wilful refusal to send the correct form to the Brotherhood of Railroad Trainmen. Appellant has rgued at length that if required to obtain the proper orm from the Brotherhood of Railroad Trainmen hat he would be subjected to pressures not to revoke is wage assignment and, above all, not to change his ffiliation. There is absolutely nothing, either in the ecord or in the Dues Deduction Agreement, to subtantiate these charges. The Brotherhood of Railroad Trainmen had the proper forms available for use by he appellant and, as the evidence shows, the correct orm was furnished and supplied to the appellant mmediately upon receipt of his notification of withrawal. The appellant did not see fit to return this orrect form to the Brotherhood of Railroad Trainmen which was just as simple as sending his withrawal to the Brotherhood of Railroad Trainmen hich was accepted without comment. The correct orm was mailed to appellant with no personal conact either having been made, requested, or required R. 25). The facts refute appellant's argument that he Brotherhood of Railroad Trainmen would refuse furnish the correct forms except under circumtances whereby the appellant would be subjected to ressures not to change his union affiliation. The only eason appellant failed to accomplish his objective of evoking his wage assignment was his wilful refusal perform the simple act of filling out and returning he correct form which was actually furnished to him y the Brotherhood of Railroad Trainmen without ven a formal request.

**(c) Appellant Should Not Be Allowed to Repudiate the Dues Deduction Agreement the Provisions of Which He Has Availed Himself of and Which Was Made on His Behalf by His Collective Bargaining Representative, the Brotherhood of Railroad Trainmen.**

Appellant, in this case, having been a member of the Brotherhood of Railroad Trainmen, was actually a party to the Dues Deduction Agreement which Agreement he accepted and followed when it was convenient for him to do so. The Brotherhood of Railroad Trainmen was the chosen representative of the appellant. When agreements are entered into by the collective bargaining representative, they are binding upon the members of that bargaining organization.

> "Other parts of the Act expressly provided for the complete independence of employees in the matter of self-organization, and the right of employees to organize and bargain collectively through representatives of their own choosing, and conferred upon the majority of any class of employees the right to determine who should be the representatives thereof. Section 2 (Fourth) of the Act of May 20, 1926, as amended by the Act of June 21, 1934, 45 U.S.C.A. Secs. 151a and 152, Fourth. There can be no doubt that the action of a majority of employees in the selection of representatives *and the action of the representatives themselves so selected were intended to be binding upon the whole class of employees.*"
>
> *Atlantic Coast Line R. Co. v. Pope,* 119 F. 2d 39 at 43.

Appellant was fully aware of the terms of the agreement entered into by and between the Brother-

ood of Railroad Trainmen and the Southern Pacific ompany because he obtained the correct form to ake his original wage deduction authorization. As matter of fact, appellant has never contended that e did not know that the agreement provided that the evocation forms were to be "reproduced and furshed" by the Brotherhood of Railroad Trainmen. ppellant knew the terms of the agreement. He knew e had to obtain the form from the Brotherhood of ailroad Trainmen. The Brotherhood of Railroad rainmen voluntarily furnished him with the correct rm though under no obligation to do so and the ly reason appellant failed to have the Southern acific Company stop deductions from his wages in cordance with his original authorization was his parent deliberate wilful failure to follow the produres of the contract which he ratified and with hich he was familiar and pursuant to the terms of hich he had originally authorized the deductions.

---

## CONCLUSION.

In summing up, appellees Brotherhood of Railroad rainmen, a voluntary association; J. J. Corcoran, as eneral Chairman, General Committee, Brotherhood Railroad Trainmen; J. E. Teague, as Secretary, eneral Committee, Brotherhood of Railroad Trainen, contend that there being no procedural set-up the Railway Labor Act for administering dues ductions that a Dues Deduction Agreement may ovide a reasonable and orderly procedure to govern

its operation so long as the privilege of appellant to change unions is free of unreasonable burdens. Both the Dues Deduction Agreement and the facts of this case show that the method of revocation as set out in the Dues Deduction Agreement is reasonable and serves the purpose of avoiding disputes in accordance with the express purpose of the Railway Labor Act and does not constitute an unreasonable burden upon appellant's privilege of changing unions. There certainly can be nothing unreasonable about requiring the member of a union to conduct his business through the union in an orderly manner. Therefore, it is respectfully submitted that the decision of the trial Court is correct and should be affirmed.

Dated, Oakland, California,
March 24, 1958.

Respectfully submitted,
HILDEBRAND, BILLS & MCLEOD,
*Attorneys for Appellees.*

D. W. BROBST,
*Of Counsel.*

# No. 15,644

IN THE

# United States Court of Appeals

## For the Ninth Circuit

---

MARION S. FELTER, on behalf of himself and others similarly situated,

*Appellant,*

vs.

SOUTHERN PACIFIC COMPANY, a corporation; BROTHERHOOD OF RAILROAD TRAINMEN, a voluntary association; J. J. CORCORAN, as General Chairman, General Committee, Brotherhood of Railroad Trainmen; J. E. TEAGUE, as Secretary, General Committee, Brotherhood of Railroad Trainmen,

*Appellees.*

## APPELLANT'S REPLY BRIEF.

---

CARROLL, DAVIS, BURDICK & McDONOUGH,
900 Balfour Building, San Francisco 4, California,
*Attorneys for Appellant.*

## Subject Index



## Table of Authorities Cited

### Cases



### Statutes

No. 15,644

IN THE

# United States Court of Appeals

## For the Ninth Circuit

---

MARION S. FELTER, on behalf of himself and others similarly situated,

*Appellant,*

vs.

SOUTHERN PACIFIC COMPANY, a corporation; BROTHERHOOD OF RAILROAD TRAINMEN, a voluntary association; J. J. CORCORAN, as General Chairman, General Committee, Brotherhood of Railroad Trainmen; J. E. TEAGUE, as Secretary, General Committee, Brotherhood of Railroad Trainmen,

*Appellees.*

## APPELLANT'S REPLY BRIEF.

---

### HE ULTIMATE ISSUE IS WHETHER THERE IS ANY AUTHORITY FOR THE CONTINUED DEDUCTION OF APPELLANT'S WAGES.

The appellees state that the *sole* issue is whether he Dues Deduction Agreement places an unreasonble burden upon the exercise of an employee's right o change unions. The applicable law and the facts f this case do not support this assertion, which misescribes the issue here.

The true issues that are involved are:

(1) Section 2, Eleventh (c) prohibits agreements providing for deduction and payment of dues to a labor organization other than that in which an employee holds membership. It is undisputed that appellant *has* withdrawn his membership in the Brotherhood of Railroad Trainmen (hereinafter called BRT). Therefore, the legality of appellees' conduct in continuing to deduct and receive a portion of appellant's wages must be determined.

(2) Section 2, Eleventh (b) of the Railway Labor Act provides that an employee may revoke his wage assignment authorization a year after its execution. It is undisputed that appellant did submit a written revocation more than a year subsequent to signing his authorization. Hence, the legality of the continued deduction and receipt of appellant's wages must be determined.

With respect to the issue designated as (1) above, the answer of the BRT admits that appellant, on and after March 1, 1957,[1] was no longer a member of that labor organization (R. 7, 36). After having so admitted, the BRT places its refusal to honor appellant's revocation *solely* on the basis that the revocation "was not handled through the designated secretary and treasurer" of the BRT (R. 36). There thus can be no question that the BRT in this case is in-

[1]The reference in the record at page 7 thereof to March 1, 1956, is obviously a typographical error, and should read March 1, 1957.

isting upon, as a matter of law, the right to receive ues and other payments from an employee whom it dmits is not a member of the BRT. This insistence nd the actual receipt of such monies is a direct violaon of Section 2, Eleventh (c) of the Act.

In this state of facts it matters not that appellee outhern Pacific Company may not have had actual roof of appellant's withdrawal from the BRT at the me it deducted dues from his wages and paid them ver to the BRT. Both appellees rely upon an interretation of the Dues Deduction Agreement which ney maintain permits their conduct despite the admitted fact by the BRT that appellant was no longer s member. It is for this reason, among others, that ppellant asserts that the Dues Deduction Agreement s invalid under the Act. The Act specifically provides hat no such agreement may provide for deduction f dues and the like "*payable* to an organization other han that in which (an employee) holds membership." Yet appellees have so applied their Dues Deduction greement, contrary to the express provisions of the ct. It is, therefore, an unlawful agreement and either appellee may escape this result by the argunent that the Company had no proof that appellant as not a member of the BRT.

Manifestly, Congress did not intend that an emloyer could continue to deduct dues from an emloyee's wages and that a labor organization could ontinue to receive those dues for so long as the labor rganization, with full knowledge of the fact, failed o advise the employer that the employee was not a

member of that union. And any agreement between the employer and the union which permits such a result, as it did here, is plainly in contravention of the Act.

Nor is this case controlled by *Pennsylvania R. R. Co. v. Rychlik,* 352 U.S. 480, cited by appellees, and that case is not in point to any issues in this case. The *Rychlik* case, supra, concerned the legality of a discharge under a union shop agreement. The Court merely held that in the exercise of the right to change unions, the union selected must be a labor organization which is "national in scope" in order to qualify under the Act; the term "national in scope" was interpreted to include only those unions qualified to elect representatives to the National Railroad Adjustment Board.

Whether or not appellant and others similarly situated had desired to change unions has no bearing on their rights under the Act as individual employees to revoke their dues deduction authorizations. These rights are as fully applicable to employees who choose to remain members of the union as they are to those who may decide to make a change. Such union members may pay dues directly to the union or decide to authorize deduction of dues from wages. The Act gives that choice only to the individual employee, and whichever choice is made only he may change it, and he may do it in the manner prescribed by the Act without interference from the union or the carrier. The holding in the *Rychlik* case, supra, is thus entirely beside the issue in the instant matter.

The critical issue here is whether the appellant, in evoking his dues deduction authorization, is entitled the protection afforded by the provisions of the ct; and, if so, whether any legal justification may e found for the refusal of the appellees to give effect that revocation.

In their briefs the appellees purport to find this ustification in two provisions of the Dues Deduction greement:

(1) That revocations must be transmitted to the ompany only through the BRT.

(2) That revocations must be on cards reproduced nd furnished by the BRT.

Neither of these purposed "requirements" provides ny semblance of justification for not terminating the age deductions in accordance with appellant's revo- tion, and as required by Section 2, Eleventh (b) the Act.

---

**IE REFUSAL TO HONOR APPELLANT'S REVOCATION CANNOT BE JUSTIFIED ON THE GROUNDS THAT THE DUES DEDUCTION AGREEMENT REQUIRES REVOCATIONS TO BE SUBMITTED TO THE COMPANY THROUGH THE BRT.**

The Company, in its brief, devotes considerable ace to arguing the desirability from its standpoint having the BRT take the responsibility for proc- sing all revocations (Company's Brief, pp. 7-8). he short answer to this contention might well be at the Company cannot so abdicate its responsibility to deprive individual employees of their rights nder the Act.

But more importantly, the record herein precludes any reliance on any such requirement. The fact is that the BRT had in its possession not one, but two revocation cards executed by the appellant. One of these cards was submitted directly to the BRT (R. 23-24, 67). The other card, sent by the appellant to the Company, was forwarded by the Company to the BRT for inclusion on the list "of employees from whose wages no further deductions (were) to be made" (R. 28-29, 67).

It is, therefore, apparent that this Dues Deduction Agreement provision, even if valid, provides no justification for the failure to give effect to appellant's revocation.

The BRT in its brief argues that it is not a burden for "a member to ask his union" for the revocation card. The very point involved is that appellant was *not* a member of the BRT and it was not "his union." The fact of this severance of membership relations goes to the heart of the realities of industrial relations life involved in this case. Appellant was a non member of the union and it became the interest of the BRT to place obstacles in his path, and the requirement that appellant submit himself to the grace of the BRT to get a release of his own money is *per se* coercive under the circumstances. Moreover, it is not true that the BRT "immediately" gave him that release "without comment" (BRT Brief, p. 11). The fact is that although it had in its possession appellant's revocation card in proper form, the BRT refused to send it to the Company, and instead appel-

ant was advised he would have to wait at least another month to be released of his wage assignment and then only if he made out and submitted to the BRT another identical card, differing only in that it was printed by the BRT. While appellant was thus forced to cool his heels at the whim of the BRT, he was told that the BRT "hoped" that he would "reconsider" (R. 25).

This was, indeed, the kind of "interference" which, if present, the BRT concedes would give grounds for maintaining appellant's rights under the law had been obstructed (BRT Brief, p. 12). Not many employees under such conditions would persevere in this battle of wits with a powerful union, and under normal conditions the BRT would succeed in such tactics. It is to prevent such practices against any employee who seeks to assert his individual rights under the law, that appellant has brought this action.

---

**THE REFUSAL TO HONOR APPELLANT'S REVOCATION CANNOT BE JUSTIFIED ON THE GROUNDS THAT REVOCATIONS CAN BE MADE ONLY ON CARDS "REPRODUCED AND FURNISHED" BY THE BRT.**

Appellees in their briefs make continual reference to the necessity of establishing some "orderly procedure" as to the manner in which revocations must be made. This is said to be necessary in order to facilitate the requisite bookkeeping entries and changes in personnel records. It is noteworthy that Congress did not deem it necessary to prescribe any intricate revocation process. But even assuming

appellees' point is well taken, under the facts herein, no justification for the refusal to honor appellant's revocation may be found.

As found by the Court below, the revocation cards submitted were identical in form to those assertedly required by the Dues Deduction Agreement (R. 67). No contention is made that the precise information and data required to effect any changes in personnel records were not fully supplied. Nor is there any dispute as to the timeliness of the revocations.

The sole basis for the refusal is the fact that the revocation cards were not "reproduced and furnished" by the BRT. But the fact that the revocation cards were not printed at the expense of the BRT is totally unrelated to any administrative paper work required. Equally irrelevant to any necessary record keeping is whether the blank revocation card forms in the first instance are obtained from the BRT.

Thus, while appellees disclaim any intent to frustrate the employees' desire to discontinue the dues deduction, one may logically ask what then is the purpose of the requirement that only a revocation card granted at the grace of the BRT will be accepted?

Appellees contend for the "right" of the BRT to be "assured" that a revocation is "the result of a considered decision of the employee" (Company's Brief, pp. 8-9; BRT Brief, p. 11). The Act plainly does not contemplate that a union, with a real financial interest in the matter, shall sit in judgment as to whether the

vocation represents such a "considered decision." ngress did not intend that only such revocations e to be effective which, to the satisfaction of the ion, are deemed executed with sufficient solemnity.

The BRT in its brief assumes unto itself the right determine that the employee has not been the ictim of a raid" or has not been "high pressured" "unduly influenced" (BRT Brief, p. 11). Presumly this means that if the BRT, a highly interested verse party, decides that the employee has been nduly influenced," it will refuse to act upon the vocation even though, admittedly, the employee inlved is not a member of the BRT, and the revocan is in proper form. Thus, the control sought to exercised here over the individual employee is real d it is serious. This intent to exercise a veto power er the individual employee is affirmed in strong rms by the appellees themselves in arguing to this urt that they be permitted to continue to enforce eir Dues Deduction Agreement in this manner. ainly, this is not what Congress had in mind when e provisions of the law here involved were adopted ter it had been reiterated in the congressional detes that it was "*wholly and entirely* within the disetion of the employee" as to whether his union dues re to be deducted from his wages by an employer d paid over to a labor union (Appellant's Opening ief, Appendix p. vi). By the Act, individual emoyees were carefully protected from this kind of ion control over their free right to revoke dues duction authorizations.

Equally unconvincing is appellees' argument that the requirement that revocation cards be secured from the BRT is necessary in order to preclude forgeries. Such reasoning, if followed, would enable unions to require that revocations be accompanied by verifying affidavits or to otherwise further stultify the intent of the law. No reason suggests itself why the Union rather than the Company is in a better position to detect forgery of an employee's signature. Congress thought it adequate that revocations be made in writing and did not intend that this right be nullified by the imposition of additional onerous or frustrating restrictions imposed by labor organizations or by private agreements between employers and unions, as in this case.

In view of the otherwise complete irrationality of requiring that revocation cards be "furnished" only by the BRT, the conclusion is irresistible that its purpose and effect can only be to enable the BRT to delay or frustrate revocations until such time as it is able to exert sufficient pressure on the employees, or confront them with so many obstacles that they will abandon their efforts.

---

**APPELLANT IS NOT "BOUND" BY THE REVOCATION PROVISION OF THE DUES DEDUCTION AGREEMENT.**

The Company argues that the appellant is bound by the terms of whatever agreement the BRT, as collective bargaining representative, has entered into with the Company (Company's Brief, p. 11). In so

ing the Company ignores the very purpose which ongress evidenced in surrounding the check-off sys-m with safeguards. The whole purpose in inserting e requirements of individual authorizations, and nferring the right of individual revocation, was to move the check-off system from the exclusive con-ol of carriers and labor organizations. In the words Senator Hill, at the end of a year if an employee does not like the way it works" he can put an end his dues deduction (see Appellant's Opening Brief, ppendix, pp. vi, vii). That is all that appellant eks here, and he has not been accorded that statu-ry right.

Obviously the BRT, as collective bargaining repre-ntative, could not enter into an agreement with the ompany purporting to make wage assignment au-orizations *irrevocable* and thereby bind the em-oyees. It is equally clear that employees are not und by provisions in agreements which serve no urpose other than to place obstacles in the path of eely exercising their right of revocation.

Appellees further argue that appellant by initially bmitting his Wage Assignment Authorization "rati-d and accepted" the terms of the Dues Deduction greement pertaining to revocation (Company's rief, p. 11). This argument overlooks the express nguage of the Wage Assignment Authorization, hich provides:

> "This authorization may be revoked by the under-signed in writing, after the expiration of one (1) year, or after the termination date of the afore-

said deduction agreement, or upon the termination of the rules and working conditions agreement, whichever occurs sooner." (R. 78-79.)

Beyond the authorization which appellant signed there is nothing in this record to show that appellant ever saw the Dues Deduction Agreement or knew of its terms.

It is thus clear that no limitation was placed on the revocability of these authorizations or consented to by appellant, save those contained in the Railway Labor Act itself. No reference is made in the Wage Assignment Authorization which appellant signed to any requirement that revocation could be made only on cards which had been printed by the BRT, and which had been secured from that organization. Appellant, therefore, bound himself by his written consent only to what the Act specifies, and nothing more.

It is specious to argue that in executing these authorizations appellant thereby bound himself to revocation procedure assertedly required by the Dues Deduction Agreement. This is particularly true in view of the peculiar wording of that portion of the agreement relied upon by the appellees, Section 1(c). Section 1(c) is couched entirely in terms of determining responsibility as between the BRT and the Company (R. 75). On the other hand, that portion of the agreement dealing directly with revocation is Section 1(b) (R. 74-75). This section, as with the Wage Assignment Authorization, merely restates the express requirements of the Act with respect to the

apsed period prior to revocation and that the revo-
ation shall be in writing. The only additional re-
uirement of this section of the Agreement is that
evocations be in the form of Attachment "B" cards,
nd there is no dispute as to the fact that appellant's
evocation was made in this form, even assuming the
alidity under the Act of such a requirement.

---

## CONCLUSION.

Despite all of their protestations as to the "reason-
bleness" of their Dues Deduction Agreement, the
act remains that appellees have continued to deduct
nd receive portions of appellant's wages solely be-
ause of the fact that his revocation card was not first
ecured from the BRT, and despite the fact that
ppellant was not a member of the BRT, of which
act appellee BRT had direct knowledge.

A requirement such as this that an employee must
un the gamut of obstacles placed in his way by the
ery organization from which he has severed connec-
ions, is inherently repugnant to accepted ideas of
reedom of choice. If such a capricious rule as this
s permitted under the law, then no end of clever
evices can be hereafter constructed to hamstring an
mployee, once he has committed himself to having
is dues deducted from his pay. Congress foresaw
his problem when it unequivocally and unconditio-
lly granted the full right of revocation to the in-
lividual employee. This right may not be tampered
vith under color of any excuse, either by carriers or

labor organizations who are subject to provisions of the Railway Labor Act.

We submit that the action of appellees in refusing to honor appellant's written dues deduction revocation is violative of the express language and purpose of the Railway Labor Act, and is in denial of appellant's rights thereunder.

Dated, San Francisco, California,
April 14, 1958.

Respectfully submitted,
CARROLL, DAVIS, BURDICK & McDONOUGH,
By ROLAND C. DAVIS,
*Attorneys for Appellant.*

No. 15645

See also Vols. 3049 3125

# United States Court of Appeals

## For the Ninth Circuit

HAROLD M. KOCH, BESSIE KOCH, WILLIAM L. KOCH, ROSE KOCH, REBECCA KOCH ABEL, MAURICE P. KOCH and DAISY KOCH,

Appellants,

vs.

UNITED STATES OF AMERICA,

Appellee.

# Transcript of Record

**Appeal from the United States District Court for the Northern District of California, Southern Division.**



Phillips & Van Orden Co., 870 Brannan Street, San Francisco, Calif.—10-11-57

No. 15645

# United States Court of Appeals

## For the Ninth Circuit

---

IAROLD M. KOCH, BESSIE KOCH, WILLIAM L. KOCH, ROSE KOCH, REBECCA KOCH ABEL, MAURICE P. KOCH and DAISY KOCH,

Appellants,

vs.

NITED STATES OF AMERICA,

Appellee.

---

# Transcript of Record

---

**Appeal from the United States District Court for the Northern District of California.**
**Southern Division.**

Phillips & Van Orden Co., 870 Brannan Street, San Francisco, Calif.—10-11-57

# INDEX

[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in italic; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in italic the two words between which the omission seems to occur.]

INDEX PAGE

## NAMES AND ADDRESSES OF COUNSEL

LEON SCHILLER, ESQ.,
105 Montgomery Street,
San Francisco, California,

For Appellants,

LLOYD H. BURKE, ESQ.,
United States Attorney,
LYNN J. GILLARD, ESQ.,

Assistant United States Attorney,
Post Office Building,
San Francisco, California,

For Appellee.

n the United States District Court for the Northern District of California, Southern Division

No. 34762—Civil

IAROLD M. KOCH, BESSIE KOCH, WILLIAM L. KOCH, ROSE KOCH, REBECCA KOCH ABEL, MAURICE P. KOCH and DAISY KOCH,

Plaintiffs,

vs.

UNITED STATES OF AMERICA,

Defendant.

EXCERPT FROM DOCKET ENTRIES

1955

July 5—Filed complaint with demand for jury trial and issued summons.

* * *

Oct. 24—Filed answer by defendant.

* * *

1956

July 23—Ordered for jury trial Sept. 17, 1956.

Sept. 13—Ordered case continued to Nov. 12, 1956, for trial.

Sept. 19—Ordered case continued to Nov. 13, 1956, for trial.

* * *

Nov. 26—Jury trial. Jury impaneled, evidence and exhibits introduced and further trial continued to Nov. 27, 1956.

1956

Nov. 27—Further jury trial. Evidence and exhibits introduced and further trial continued to Nov. 28, 1956, at 10 a.m.

Nov. 28—Further jury trial. Evidence and exhibits introduced; motion of United States to amend Par. 2, of 11 & 13 counts of answer denied; motion of U.S.A. for directed verdict as to $15,000.00 advanced by Maurice P. Koch granted; motion for directed verdict as to remainder of money advanced by H. Koch & Sons denied and further trial continued to Nov. 29, 1956.

Nov. 29—Further jury trial. Arguments heard, jury retired and returned verdict for defendant. Motion of plaintiff for judgment notwithstanding verdict, continued to Nov. 30, 1956, at 10:30 a.m. Counsel for defendant to prepare findings, conclusions and form of judgment.

Nov. 29—Filed verdict.

Nov. 30—Arguments on motion for judgment notwithstanding verdict and motion to set aside special verdict. Both motions submitted.

Dec. 3—Filed order denying motion of plaintiff for judgment notwithstanding verdict and to set aside verdict.

Dec. 6—Lodged findings of fact and conclusions of law by defendant.

Dec. 6—Lodged Judgment on special verdict by defendant.

* * *

1956

Dec. 28—Lodged findings of fact and conclusions of law by plaintiff.

1957

Jan. 23—Filed findings & conclusions (prepared by Court).

Jan. 23—Entered judgment on special verdict—filed Jan. 23, 1957, that plaintiff take nothing by their complaint and judgment awarded U.S.A. for costs.

Jan. 23—Mailed notices.

Jan. 25—Filed memorandum of costs by defendant ($106.00).

Jan. 29—Costs taxed $106.00.

Feb. 1—Filed notice and motion by plaintiff for new trial, Feb. 21, 1957.

* * *

Feb. 21—Ordered after hearing motion for new trial submitted.

Mar. 5—Filed order denying motion for new trial.

* * *

Apr. 18—Filed notice of appeal by plaintiff.

Apr. 18—Filed appeal bond in sum $250.00.

Apr. 19—Mailed notices.

May 21—Filed order extending time to docket appeal to June 30, 1957.

June 18—Filed order extending time to docket appeal to July 17, 1957.

June 8—Filed appellants' designation of record on appeal.

[Title of District Court and Cause.]

## SPECIAL VERDICT

During the year 1947, was H. Koch and Son regularly engaged in the business of financing motion picture ventures?

Answer: "No."

/s/ CHARLES L. PHIPPS,
Foreman.

[Endorsed]: Filed November 29, 1956.

---

[Title of District Court and Cause.]

## ORDER

The plaintiffs' motion for judgment notwithstanding the verdict and for setting aside the special verdict may be denied.

Dated: December 3, 1956.

/s/ O. D. HAMLIN,
United States District Judge.

[Endorsed]: Filed December 3, 1956.

---

[Title of District Court and Cause.]

## FINDINGS OF FACT AND CONCLUSIONS OF LAW

The above-entitled action came on regularly for trial on November 26, 1956; November 27, 1956; No-

vember 28, 1956; and November 29, 1956, before the Court and a jury duly impaneled and sworn, Honorable O. D. Hamlin, United States District Judge presiding. Max Fink, Esq., and Leon Schiller, Esq., appeared for plaintiffs and Lloyd H. Burke, Esq., United States Attorney, by Lynn J. Gillard, Esq., Assistant United States Attorney, appeared for defendant. Oral and documentary evidence was introduced and stipulations were made between respective counsel. The Court granted a directed verdict against the plaintiff Maurice P. Koch. Pursuant to stipulation, after instructions by the Court, a single interrogatory was submitted to the jury on November 29, 1956, and all other matters were left to the determination by the Court. The single interrogatory submitted to the jury and the special verdict thereon rendered by the jury is as follows:

> "During the year 1947, was H. Koch & Sons regularly engaged in the business of financing motion picture ventures?
>
> Answer: No."

On the basis of the evidence and stipulations, the Court makes the following:

## FINDINGS OF FACT

1. The plaintiffs, Harold M. Koch, William L. Koch, Rebecca Koch Abel and Maurice P. Koch are brothers and sister. The said plaintiffs entered into a partnership pursuant to written agreement on December 31, 1941, and ever since said date have con-

tinued as partners under the firm name and styl H. Koch & Sons.

2. The written articles of co-partnership of De cember 31, 1941, provided that the partnership woul engage in the business of manufacturing luggage Said articles of co-partnership were amended by written agreement dated October 23, 1944, pursuant to which the partners agreed to also engage in the business of financing motion picture productions. The said partnership agreement, as amended, has remained in full force and effect at all times herein mentioned.

3. The plaintiff, Bessie Koch, is the wife of the plaintiff Harold Koch; the plaintiff Rose Koch is the wife of William L. Koch; and the plaintiff Daisy Koch is the wife of the plaintiff Maurice P. Koch.

4. The above-entitled action was brought by plaintiffs to recover income taxes assessed and collected by defendant for the years 1945 and 1947, pursuant to the provisions of the Internal Revenue Code of 1939.

5. For the years 1945, 1946 and 1947, Maurice P. Koch, William L. Koch, Harold M. Koch and Rebecca Koch Abel were partners in the business of manufacturing and selling luggage, doing business under the firm name of H. Koch & Sons.

6. In 1946, H. Koch & Sons loaned $75,000.00 to Beacon Pictures Corporation. As consideration for

the use of its money, H. Koch & Sons was to receive from the Beacon Pictures Corporation 6% interest per annum and a percentage of the profits of a film to be made, named Copacabana. The entire $75,000.00 loan became worthless in 1947, and each partner's share of the loss was $18,750.00.

7. The partnership of H. Koch & Sons timely filed a partnership income tax return for the year 1947, indicating a net income of $19,223.19. Thereafter, an amended return was filed indicating a net loss of $55,776.82 which resulted from a deduction of the $75,000.00 loss.

8. Each of the plaintiffs timely filed individual income tax returns for the calendar years 1945 and 1947 with the United States Collector of Internal Revenue for the First District of California. Each of the plaintiffs filed with the same Collector original and amended claims for refund of taxes paid for the years 1945 and 1947 as follows:

| | 1945 | | 1947 | |
|---|---|---|---|---|
| | Original | Amended | Original | Amended |
| Harold M. Koch | $ 3,623.90 | $ 3,623.90 | $223.00 | $223.00 |
| Bessie Koch | 3,673.08 | 3,673.08 | 318.00 | 318.00 |
| William L. Koch | 3,623.90 | 3,623.90 | 223.00 | 223.00 |
| Rose Koch | 3,673.08 | 3,673.08 | 318.00 | 318.00 |
| Rebecca Koch Abel | 12,142.17 | 12,142.17 | 605.61 | 605.61 |
| Maurice P. Koch | 4,649.77 | 4,649.77 | 860.62 | 860.62 |
| Daisy Koch | 4,797.74 | 4,797.74 | 860.63 | 860.63 |

The Collector advised each of the plaintiffs that the claims for the year 1945 were denied, and that the claims for the year 1947 would not be allowed on the theory advanced to support the claims, but would be

allowed as a non-business bad debt and not otherwise.

9. The loss sustained by H. Koch & Sons and its respective partners in the year 1947 by reason of the said sums thus advanced resulted from a non-business bad debt.

10. Maurice P. Koch was not engaged in the business of financing motion picture ventures during the calendar year 1947.

11. In the complaint, the plaintiffs raised, among others, the following issues: (1) that the $75,000.00 loss by the partnership of H. Koch & Sons and the alleged $15,000.00 loss by Maurice P. Koch and Daisy Koch were incurred in the business of producing motion pictures or in a joint venture and (2) that the $75,000.00 loss by the partnership of H. Koch & Sons and the alleged $15,000.00 loss by Maurice P. Koch and Daisy Koch were incurred in a business regularly carried on other than the business of financing motion picture ventures. By stipulation of the parties prior to submission of the case to the jury the above issues were withdrawn.

12. The parties stipulated that the plaintiffs rights to recover the alleged overpayments of taxes would require the jury to answer "yes" to the following interrogatory submitted to them:

> "During the year 1947, was H. Koch & Sons regularly engaged in the business of financing motion picture ventures?"

On the basis of the answer to the special interrogatory submitted to the jury, the stipulations made by the parties and the foregoing findings of fact, the Court makes the following:

## CONCLUSIONS OF LAW

1. The $75,000.00 loss incurred by H. Koch & Sons in the year 1947 was not a loss incurred in the trade or business of H. Koch & Sons or incurred in any transaction entered into for profit, within the meaning of Section 23(e) of the Internal Revenue Code of 1939.

2. The $15,000.00 loss alleged to have been individually suffered by Maurice P. Koch and Daisy Koch was not a loss incurred in a trade or business or incurred in any transaction entered into for profit, within the meaning of Section 23(e) of the Internal Revenue Code of 1939.

3. The $75,000.00 loan to Beacon Pictures Corporation by H. Koch & Sons which became worthless in 1947 was a nonbusiness debt within the meaning of Section 23(k) of the Internal Revenue Code of 1939.

4. The $15,000.00 loan made by Maurice P Koch and Daisy Koch, individually, which became worthless in the year 1947 was a nonbusiness debt within the meaning of Section 23(k) of the Internal Revenue Code of 1939.

5. The $75,000.00 loss suffered by H. Koch & Sons in the year 1947 is not an allowable deduction

in arriving at the net operating loss pursuant to the provisions of Section 122 of the Internal Revenue Code of 1939.

6. The $15,000.00 loss suffered by Maurice P. Koch and Daisy Koch in the year 1947 is not an allowable deduction in arriving at the net operating loss pursuant to the provisions of Section 122 of the Internal Revenue Code of 1939.

7. The income taxes assessed and collected from plaintiffs by defendant for the years 1947 and 1945 were validly assessed and collected pursuant to the provisions of the Internal Revenue Code of 1939.

8. The defendant the United States of America is entitled to judgment that plaintiffs recover nothing and that defendant recover its costs incurred.

Dated: January 23, 1957.

/s/ O. D. HAMLIN,
United States District Judge.

[Endorsed]: Filed January 23, 1957.

In the District Court of the United States for the Northern District of California, Southern Division.

No. 34762

HAROLD M. KOCH, BESSIE KOCH, WILLIAM L. KOCH, ROSE KOCH, REBBECA KOCH ABEL, MAURICE P. KOCH and DAISY KOCH,

Plaintiffs,

vs.

UNITED STATES OF AMERICA,

Defendant.

## JUDGMENT ON SPECIAL VERDICT

The above-entitled action came on regularly for trial on November 26, 1956; November 27, 1956; November 28, 1956; and November 29, 1956, before the Court and jury empaneled and sworn, Honorable O. D. Hamlin, United States District Judge presiding. Max Fink, Esq., and Leon Schiller, Esq., appeared for plaintiffs, and Lloyd H. Burke, Esq., United States Attorney, by Lynn J. Gillard, Esq., Assistant United States Attorney, and Marvin D. Morgenstein, Esq., Assistant United States Attorney, appeared for defendant. Oral and documentary evidence was introduced and stipulations were made by respective counsel that the jury should be required to return a special verdict in the form of a finding on the issue of fact. Counsel for plaintiff and defendant thereupon stipulated that a special verdict be

returned in the form of an answer to the written interrogatory hereinafter set forth and that all other issues in the case would be determined by the Court.

After argument by respective counsel, and instructions by the Court having been given to the jury for consideration in answering the interrogatory, and the jury on the 29th day of November, 1956, having returned its special verdict which was as follows:

> "During the year 1947, was H. Koch & Sons regularly engaged in the business of financing motion picture ventures?
>
> Answer: No.
>
> /s/ CHARLES L. PHIPPS,
> Foreman."

And the Court having directed a verdict in favor of the defendant against Maurice P. Koch and Daisy Koch for the portion of the claims based upon the individual loan of $15,000 by Maurice P. Koch; and having denied plaintiffs' motions for judgment notwithstanding the verdict and to set aside the special verdict; and the Court having made findings of fact and having found as a conclusion of law that by reason of the directed verdict and the special verdict and the findings of fact, plaintiffs are entitled to take nothing by their complaint and that judgment should be entered in favor of defendant.

It Is Hereby Ordered, Adjudged and Decreed that plaintiffs take nothing by their complaint, and

hat judgment is awarded to defendant United States of America, together with its costs in this ction amounting to the sum of $106.00.

Dated: January 23, 1957.

/s/ O. D. HAMLIN,
United States District Judge.

[Endorsed]: Filed and entered January 23, 1957.

---

Title of District Court and Cause.]

## INDINGS OF FACT AND CONCLUSIONS OF LAW TENDERED BY PLAINTIFFS

The above-entitled action came on regularly for rial on November 26, 1956; November 27, 1956; Noember 28, 1956, and November 29, 1956, before the Court and a jury duly impaneled and sworn, Honorble O. D. Hamlin, United States District Judge residing. Max Fink, Esq., and Leon Schiller, Esq., ppeared for plaintiffs and Lloyd N. Burke, Esq., United States Attorney, by Lynn J. Gillard, Esq., ssistant United States Attorney, and Marvin D. Morgenstein, Esq., Assistant United States Atorney, appeared for defendant. Oral and documentary evidence was introduced and stipulations were made between respective counsel. The Court ranted a directed verdict against the plaintiff, Maurice P. Koch. Pursuant to stipulation, after nstructions by the Court, a single interrogatory was ubmitted to the jury on November 29, 1956, and all

other matters were left to the determination by the Court. The single interrogatory submitted to the jury and the special verdict thereon rendered by the jury is as follows:

> "During the year 1947, was H. Koch & Sons regularly engaged in the business of financing motion picture ventures?
>
> Answer: No."

On the basis of the evidence and stipulations, the Court makes the following:

## Findings of Fact

1. The plaintiffs, Harold M. Koch, William L. Koch. Rebecca Koch Abel and Maurice P. Koch are brothers and sister. The said plaintiffs entered into a partnership pursuant to written agreement on December 31, 1941. and ever since said date have continued as partners under the firm name and style of H. Koch & Sons.

2. The written articles of copartnership of December 31. 1941. provided that the partnership would engage in the business of manufacturing luggage. Said articles of copartnership were amended by written agreement dated October 23, 1944, pursuant to which the partners agreed to also engage in the business of financing motion picture productions. The said partnership agreement, as amended, has remained in full force and effect at all times herein mentioned.

3. The plaintiff, Bessie Koch is the wife of the plaintiff Harold Koch; the plaintiff Rose Koch is

the wife of William L. Koch; and the plaintiff Daisy Koch is the wife of the plaintiff Maurice P. Koch.

4. In 1946 H. Koch & Sons advanced the sum of $80,000.00 to Beacon Pictures Corporation and the sum of $10,000.00 to the individual promoters of said Beacon Pictures Corporation, all of which funds were advanced for the promotion and production of a motion picture entitled "Copacabana." Although the entire transaction was conducted as a partnership transaction, the sum of $15,000.00 of the said sum advanced was especially contributed by the plaintiff Maurice P. Koch for the specific purpose of the said motion picture project and pursuant to the said partnership agreement, as amended, the said Maurice P. Koch was entitled to share proportionately to the extent of the sum of $75,000.00 contributed by the partnership and entitled to a separate share for the additional funds advanced by him and which were not matched by the remaining partners.

5. Pursuant to written agreements entered into by and between H. Koch & Sons and said Beacon Pictures Corporation it was provided that the sum of $80,000.00 would be repaid to H. Koch & Sons of and from the proceeds from the distribution and exploitation of the picture "Copacabana" throughout the world, subject to and following the repayment from such proceeds to Bank of America National Trust and Savings Association of the sum of $730,000.00 and to Standard Capital Company of

the sum of $277,538.32, and also subject to deduction of the distributors' charges. Pursuant to the said agreement and in consideration of said advance Beacon Pictures Corporation transferred and assigned to H. Koch & Sons, 13 8/10% interest in the said motion picture and in all profits and interests therein.

6. That pursuant to said written agreement between said Beacon Pictures Corporation and H. Koch & Sons it was further provided that in the event the proceeds derived from the sale, distribution and exploitation were insufficient to repay the said $80,000.00 that said Beacon Pictures Corporation would repay the same in any event.

7. That the sum of $10,000.00 advanced by H. Koch & Sons to the promoters of the motion picture was advanced pursuant to an agreement wherein and whereby it was provided that the said sum would be repaid only if the project was successful and if the promoters realized profits from their interests in the venture.

8. The motion picture "Copacabana" was not successful and resulted in a loss in the year 1947.

9. During the year 1947, H. Koch & Sons was not regularly engaged in the business of financing motion picture ventures.

10. The partnership of H. Koch & Sons timely filed a partnership income tax return for the year 1947, indicating a net income of $19,223.19. Thereafter, an amended return was filed indicating a net

loss of $55,776.82 which resulted from a deducation of the $75,000.00 loss.

11. Each of the plaintiffs timely filed individual income tax returns for the calendar years 1945 and 1947 with the United States Collector of Internal Revenue for the First District of California. Each of the plaintiffs filed with the same Collector original and amended claims for refund of taxes paid for the years 1945 and 1947 as follows:

| | 1945 | | 1947 | |
|---|---|---|---|---|
| | Original | Amended | Original | Amended |
| Harold M. Koch | $ 3,623.90 | $ 3,623.90 | $223.00 | $223.00 |
| Bessie Koch | 3,673.08 | 3,673.08 | 318.00 | 318.00 |
| William L. Koch | 3,623.90 | 3,623.90 | 223.00 | 223.00 |
| Rose Koch | 3,673.08 | 3,673.08 | 318.00 | 318.00 |
| Rebecca Koch Abel | 12,142.17 | 12,142.17 | 605.61 | 605.61 |
| Maurice P. Koch | 4,649.77 | 4,649.77 | 860.62 | 860.62 |
| Daisy Koch | 4,797.74 | 4,797.74 | 860.53 | 860.53 |

The Collector determined and advised each of the plaintiffs of the Collector's determination that the claims for the year 1945 were denied, and that the claims for the year 1947 would be allowed as a non-business bad debt and not otherwise.

12. That the loss sustained by H. Koch & Sons and its respective partners in the year 1947 by reason of the said sums thus advanced resulted from a non-business bad debt.

## Conclusions of Law

1. The loss incurred by H. Koch & Sons in the year 1947 as a result of its investment in the picture "Copacabana" was not a loss incurred in the trade or business of H. Koch & Sons within the

meaning of Section 23(e) of the Internal Revenue Code of 1939.

2. The sums advanced by H. Koch & Sons for the promotion and production of the motion picture "Copacabana" and which became worthless in 1947 was a non-business debt within the meaning of Section 23(k) of the Internal Revenue Code of 1939.

3. The said loss suffered by H. Koch & Sons in the year 1947 is not an allowable deduction in arriving at the net operating loss pursuant to the provisions of Section 122 of the Internal Revenue Code of 1939.

4. The income taxes assessed and collected from plaintiffs by defendant for the years 1947 and 1945 were validly assessed and collected pursuant to the provisions of the Internal Revenue Code of 1939.

5. The defendant the United States of America is entitled to judgment that plaintiffs recover nothing, and that defendant recover its costs incurred.

Dated: December .., 1956.

.....,

O. D. HAMLIN,

United States District Judge.

Affidavit of Service by Mail attached.

Lodged December 28, 1956.

Title of District Court and Cause.]

## NOTICE OF MOTION FOR NEW TRIAL

o the defendant above named and to Lynn J. Gillard and Marvin D. Morgenstein, its attorneys:

Please Take Notice that the undersigned will ring the motion for new trial on for hearing before his Court, in the United States Post Office Building, 7th and Mission Streets, San Francisco, California, on the 21st day of February, 1957, at 9:30 m., or as soon thereafter as counsel can be heard.

Dated: February 1, 1957.

LEON SCHILLER,
MAX FINK,

By /s/ LEON SCHILLER,
Attorneys for Plaintiffs.

Title of District Court and Cause.]

## MOTION FOR NEW TRIAL

Plaintiffs, Harold M. Koch, Bessie Koch, William . Koch, Rose Koch, Rebecca Koch Abel, Maurice . Koch and Daisy Koch, move this Court, Hon. . D. Hamlin presiding, to set aside the judgment erein and to grant a new trial of the above cause or these reasons:

1. Judgment contrary to law.

2. Judgment contrary to evidence.
3. Evidence is insufficient to support judgment.
4. Error as to admission of evidence.
5. Error as to exclusion of evidence.
6, Verdict not warranted by evidence.
7. Misconduct of counsel for the defendant.
8. Errors in instructions given.
9. Errors in refusal of requested instructions.
10. Errors in findings of fact.
11. Errors in conclusions of law.

Dated: February 1, 1957.

LEON SCHILLER,
MAX FINK,

By /s/ LEON SCHILLER,
Attorneys for Plaintiffs.

Receipt of Copy acknowledged.

[Endorsed]: Filed February 1, 1957.

---

[Title of District Court and Cause.]

ORDER

Plaintiff's motion for a new trial is denied.

Dated: March 5th, 1957.

/s/ O. D. HAMLIN,
United States District Judge.

[Endorsed]: Filed March 5, 1957.

'LAINTIFF'S REQUESTED INSTRUCTIONS

That it is admitted in this case that H. Koch & ons is a copartnership consisting of Rebecca Koch bel, Maurice P. Koch, Harold M. Koch, and Wilam L. Koch.

That it is admitted in this case that the operations f H. Koch & Sons, a copartnership, for the year 947, resulted in a loss for that year in the sum of 55,776.82.

Your are further instructed that the amounts dvanced by H. Koch & Sons to Beacon Pictures orporation became bad debts and worthless in the ear 1947 and contributed to the over-all loss susained by H. Koch & Sons.

However, the treatment for income tax purposes f that loss would differ, depending upon whether or ot H. Koch & Sons was regularly engaged in 1947 n the business of promoting and financing motion icture ventures.

In order for one to be regularly engaged in the onduct of a particular business, it is not necessary hat he devote a major part or any particular part f his time and efforts to such business. Neither is it ecessary that he devote a major portion or any paricular portion of his capital to such business in rder for it to be deemed to be a business regularly arried on by such taxpayer. The amount of time as vell as the proportionate amount of capital devoted o a particular business are each factors to be con-

sidered in determining whether or not one is regularly engaged in a particular business.

A taxpayer may engage in or regularly conduct one or several businesses at the same time.

A taxpayer may be deemed to be regularly engaged in the conduct of a particular business even though he may devote most of his time, efforts, and capital to another business or other businesses.

That a trade or business may be regularly carried on by a taxpayer although he does not devote his personal attention to such trade or business. One may conduct a business through employees, agents, representatives and others without devoting one's personal time to such business, and such business may nevertheless be regularly carried on within the meaning of the law applicable to this case.

That taxpayers may act through employees, agents and other persons, firms and corporations appointed by such taxpayers, and that the acts of such employees, agents and other persons, firms and corporations appointed by taxpayers are in contemplation of law the acts of the taxpayers. Thus, in considering the activities of the taxpayers in the instant cause with relationship to the conduct of any business or enterprises, you are required to consider that the acts of any such employees, agents and other persons, firms and corporations appointed by them are in fact the acts and activities of the taxpayers.

The authorized act or acts of any one partner of H. Koch & Sons in connection with partnership busi-

ness or activities are in contemplation of law the ct or acts and activities of all the partners.

If the taxpayer regularly and continuously participates in any certain activity then such activity may constitute the trade or business of the taxpayer.

That if you should find that H. Koch & Sons, acting through one or more of its partners, or acting through persons, firms, corporations or representatives appointed by said partnership, has regularly and continuously participated in the promotion and financing of motion picture ventures during the year 1947, then you must find that H. Koch & Sons was engaged in the business of financing and promoting motion picture ventures and that said business was regularly conducted.

The incidence of taxation depends upon the substance of a transaction and not upon the forms utilized by the parties to the transaction. The transaction must be viewed as a whole, and each step, from the commencement of negotiations to the consummation of the transaction, is relevant.

The real facts, not bookkeeping entries, control the determination of taxable income. Account books are evidential but neither indispensable nor conclusive for or against the taxpayer or the government.

That in determining whether or not H. Koch & Sons was engaged in the business of financing motion picture ventures, you must consider, among

other things, the amount of time and effort expended in that direction, and such time and effort, if any, must be considered by you whether or not an actual venture was concluded.

That in considering the activities of H. Koch & Sons with relation to the business of financing motion picture ventures, you must consider all activities designed to advance the financing of such projects and you must consider the same whether or not the transactions were actually concluded.

That in considering the question as to whether or not H. Koch & Sons devoted substantial time to the financing of motion picture ventures, you are required to consider all of their activities relating to that purpose, and all activities and efforts actually expended in attempting to negotiate for and in attempting to enter into financial transactions relating to the business of financing motion picture ventures must be considered by you upon this issue, whether the same were concluded or not.

---

## DEFENDANT'S INSTRUCTIONS

The plaintiffs here seek to recover income taxes paid pursuant to the Internal Revenue Laws of the United States. The issue here is the proper treatment of moneys advanced by the plaintiffs to Beacon Pictures Corporation. Plaintiffs seek to deduct the entire amount of this loan in arriving at their net income for the year 1947. To warrant such a deduction of the entire amount of the moneys alleged

to be advanced as a loan, the loan must have been incurred in the plaintiffs' trade or business. The Commissioner of Internal Revenue has determined that the loan was not incurred in the plaintiffs' trade or business.

If a bad debt is not incurred in a trade or business, the taxpayers may deduct it under another section of the Internal Revenue Code. Thus, the plaintiffs in this case would have been allowed a deduction even if you find the plaintiffs were not in the trade or business of promoting and financing motion picture ventures. If the debt is not incurred in a trade or business, the taxpayer is allowed to deduct $1,000 against his current income, and carry over the amount of the debt which has not been deducted, to each of the next five years.

There is a presumption that the determination by the Commissioner of Internal Revenue that the plaintiffs were not engaged in the trade or business of promoting, organizing, and financing motion pictures is correct, and the plaintiffs have the burden of proving that this determination is wrong.

The burden is on the plaintiffs to overcome the presumption of correctness of the Commissioner's determination, and to prove by a preponderance of evidence that they were engaged in a trade or business of organizing, promoting and financing motion pictures. The preponderance of the evidence means the greater weight of evidence; but this is not determined solely by the greater number of witnesses testifying to any particular fact. The testimony on

the part of the party on whom the burden rests must have greater weight in your estimation: have a more convincing effect than that opposed to it.

Proof by the taxpayers that they made frequent loans and investments in motion picture ventures is not sufficient to constitute a trade or business. And proof of other attempts to make loans or investments in motion picture ventures is not sufficient evidence for you to find that they regularly engaged in the business of promoting and financing motion picture ventures. Investing and financing is not a trade or business.

Isolated and infrequent promotion and financing of motion pictures is not a trade or business within the meaning of the Internal Revenue Laws. To constitute a trade or business it must be shown that the activity was extensive; is must be shown that the activity was regularly carried on; it must be shown that the activity constituted a substantial portion of the time, energy and effort of those who claim it is a trade or business.

In many instances for taxing purposes the law ignores the existence of a partnership.

United States vs. Coulby,
251 Fed, 982, 984 (N. D. Ohio), 1918;

Neuberger vs. Commissioner,
311 U. S. 83, 88 (1940).

Thus, the fact that a partnership was formed to finance motion pictures does not mean that the partners were engaged in the business of promoting

nd financing motion pictures. There must exist hat great devotion of time and energy by the individual partners to the promotion and financing f motion picture ventures before the taxpayers may laim they were regularly engaged in that business.

The business carried on by a corporation is not to e considered a business carried on by the shareolders, directors or officers. Thus merely because one an officer, shareholder or director in a corporation hich is engaged in the business of promoting and nancing motion pictures, does not mean the shareolder or officer or director himself is engaged in the usiness of promoting and financing motion picture entures.

There has been testimony of the activity of Mauce P. Koch as shareholder, officer and director of roducers Finance Corporation. I instruct you that e conduct of Maurice P. Koch in furtherance of e promotion and financing of motion picture venres on behalf of Producers Finance Corporation ay not be considered by you in determining whether y of the plaintiffs were engaged in the business of romoting and financing motion picture ventures if ou believe Maurice P. Koch was acting in his caacity as a corporate officer, shareholder and direcr.

Defendant has put in issue the question of whether laurice P. Koch individually loaned $15,000 to eacon Pictures Corporation. This issue is distinct om the question raised by the other interrogatories bmitted to you. Accordingly, your answer to the

question of whether this money was loaned by Maurice P. Koch may differ with your answers to the other interrogatories.

Maurice P. Koch has alleged in the complaint that he individually loaned $15,000 to Beacon Pictures Corporation in excess of the amount loaned by the Partnership of Koch & Sons. The complaint is not evidence in the case, nor are any allegations in the complaint evidence in this case. Thus, the burden still rests on Maurice P. Koch to prove by a preponderance of the evidence that individually he loaned $15,000 to Beacon Pictures Corporation.

Counsel have a right, and indeed a duty, to argue the case to you. It is your duty to listen and to be attentive, and to give weigth and consideration to the arguments of the counsel. However, in their comments upon the facts of the case, if you find that there is any discrepancy between what they stated to you to be the facts of the case and the words that have come from the mouths of the witnesses, you must disregard, if there is such conflict, the statement as to the facts made by the attorneys, and consider only the evidence given by the witnesses in that regard.

You are the sole judges of the credibility of each witness, and it is for you to pass on the relibility of each witness.

In determining the credibility of a witness, you may consider his interest in the outcome of the trial.

If you believe that Maurice P. Koch used his own money in any transaction, and was acting therein n his own behalf an not in behalf of H. Koch & Sons, hat transaction is to be considered only in determin-ng whether Maurice P. Koch was engaged in the usiness of financing motion picture ventures and an not be considered by you in determining whether he partnership of H. Koch & Sons was engaged in he business of financing motion picture ventures.

The burden of proof in this case is upon the plain-iffs to prove by a preponderance of the evidence hat the loan by plaintiffs to Beacon Picture Corpo-ation was a loan made in plaintiffs regular trade r business. By preponderance of the evidence is neant the greater weight of evidence, and if you ind that the evidence is equal on both sides, then ou should find for the defendant. You are further nstructed that an income tax deduction is a mat-er of legislative grace and that the burden of clearly howing the right to the claimed deduction is on the laintiffs.

In considering the testimony of each witness in his case you should take into consideration the in-erest of the witnesses, if any, who have testified, he manner in which they have given their testi-mony, their candor or lack of candor, their frank-ness or lack of frankness, the reasonableness or un-easonabless of their statements or opinions, and rom all these facts and circumstances, together with all the other facts and circumstances in the

case, determine whether or not the loan in question was made as a part of plaintiffs' trade or business.

That the term "trade or business" as used in Sec. 23(e) of the Internal Revenue Code of 1939 does not encompass all activities engaged in for a profit. By "trade or business" is meant that trade or business which is regularly engaged in by plaintiffs and does not include occasional or isolated transactions entered into for profit.

---

[Title of District Court and Cause.]

## NOTICE OF APPEAL

Notice Is Hereby Given that Harold M. Koch, Bessie Koch, William L. Koch, Rose Koch, Rebecca Koch Abel, Maurice P. Koch and Daisy Koch, plaintiffs above named, hereby appeal to the United States Court of Appeals for the Ninth Circuit, from the final judgment entered in this action on January 23, 1957.

Dated: April 18, 1957.

MAX FINK,
LEON SCHILLER,

By /s/ LEON SCHILLER,
Attorneys for Plaintiffs.

[Endorsed]: Filed April 18, 1957.

'he United States District Court Northern District of California, Southern Division

No. 34,762

IAROLD M. KOCH, BESSIE KOCH, WILLIAM L. KOCH, ROSE KOCH, REBECCA KOCH ABEL, MAURICE P. KOCH and DAISY KOCH,

Plaintiffs,

vs.

NITED STATES OF AMERICA,

Defendant.

Before: Hon. O. D. Hamlin, Judge.

TRANSCRIPT OF TRIAL

November 26, 1956

ppearances:

For the Plaintiffs:
MAX FINK, ESQ., and
LEON SCHILLER, ESQ.

For the Defendant:
LLOYD H. BURKE, ESQ.,
United States Attorney, by
LYNN J. GILLARD, ESQ.,
Assistant U. S. Attorney.

(A jury of twelve persons was duly impaneled and sworn to try the cause.)

(Opening statements were made by counsel for the respective parties.)

The Court: Call your first witness.

Mr. Schiller: We will call Mr. Maurice P. Koch.

MAURICE P. KOCH

one of the plaintiffs, was called as a witness in his own behalf, and after being first duly sworn, testified as follows:

Direct Examination

By Mr. Fink:

Q. Mr. Koch, will you state your full name, please? A. Maurice P. Koch.

Q. Do you have a brother named Harold M. Koch? A. Yes, sir.

Q. Do you have a brother named William L. Koch? A. Yes.

Q. A sister named Rebecca Koch?

A. That is right.

Q. Your sister, Rebecca, has been married since this action was started, or prior to the starting of this action—I will withdraw the question.

Your sister, Rebecca Koch, has been married in the past few years? A. That is right.

Q. What is her name now?

A. Rebecca Abel. [4*]

Q. Are you and your brothers and your sister engaged in business? A. Yes.

Q. As a partnership? A. That is right.

*Page numbering appearing at top of page of original Reporter's Transcript of Record.

(Testimony of Maurice P. Koch.)

Q. When was this partnership first started?

A. Started in 1941.

Q. Mr. Koch, I show you here a document which bears the date of December 31, 1941, and seems to bear the signatures of Maurice Koch, Rebecca Koch, Harold Koch, and William L. Koch. Are these the signatures of yourself, your two brothers and your sister that you just mentioned? A. They are.

Q. Is this your partnership agreement?

A. That is right.

Mr. Fink: May I have this marked as plaintiffs' 1 in evidence, your Honor?

Mr. Gillard: No objection.

The Court: It may be so marked.

(The partnership agreement referred to was marked Plaintiffs' Exhibit No. 1 in evidence.)

Q. (By Mr. Fink): I will show you here, Mr. Koch, a document which bears date the 23rd day of October, 1944, between the same parties, and it is called "Amendment to Agreement of December 31, 1941." Is this the amendment to the document [5] that has just been marked Exhibit 1?

A. That is right.

Q. And also the four signatures, "Rebecca Koch, Maurice Koch, Harold M. Koch, and William L. Koch," are these the signatures of yourself, your brothers and your sister? A. They are.

Mr. Fink: May we offer this as Exhibit 2, your Honor?

Mr. Gillard: No objection.

(Testimony of Maurice P. Koch.)

The Court: It may be so marked.

(The amendment to agreement referred to was marked Plaintiffs' Exhibit No. 2 in evidence.)

Q. (By Mr. Fink): Mr. Koch, I show you here a document which is called "Agreement of Partnership," and bears date the 23rd day of October, 1944, which I want to point out to you is the same date which appears on the document, Exhibit 2, which you just saw. This seems to be the agreement of partnership of Producers Syndicate.

A. That is right.

Q. Do you recall this document?

A. Yes, sir.

Q. Have you observed the signatures that appear on this document? A. Yes.

Q. Are you familiar with some of them?

A. All of them. [6]

Q. With all of them? A. Yes, sir.

Mr. Fink: We will offer this as Plaintiffs' Exhibit 3, your Honor—Agreement of Partnership of Producers Syndicate, October 23, 1944.

Mr. Gillard: I will object to that as being incompetent, irrelevant and immaterial and having no bearing upon the issues of this case. If the Court will permit me to take the witness on voir dire for the moment I will appreciate that. This is the situation which Mr. Fink referred to in his opening statement, in which no investment resulted, and as such it is our position that it has no bearing upon

(Testimony of Maurice P. Koch.)

the issues of the case. It does not show whether or not the plaintiffs were or were not in the business of financing motion picture production.

Mr. Fink: Your Honor, our position on that is that $50,000 was invested. It ties in with the partnership agreement which was amended on that same date to permit this type of activity to go into the motion picture financing business.

The Court: It may be admitted and marked Plaintiffs' Exhibit 3, subject to a motion to strike.

(The agreement of partnership referred to was marked Plaintiffs' Exhibit No. 3.)

Q. (By Mr. Fink): Mr. Koch, did you know a Mr. David Hersh? A. Yes, sir. [7]

Q. Did you know a Mr. Sam Coslow?

A. Yes, sir.

Q. Did you know a Mr. David Sebastian?

A. Yes.

Q. How long have you known Mr. Sebastian?

A. Over 30 years.

Q. Is he related to you by marriage?

A. That is right.

Q. What is his relationship to you?

A. My brother-in-law.

Q. Mr. Hersh—when did you first meet him?

A. I met Mr. Hersh in the early part of 1946.

Q. What was the occasion of your meeting with Mr. Hersh?

A. I met Mr. Hersh—was brought to me relative to picture deals.

(Testimony of Maurice P. Koch.)

Q. Where did you meet Mr. Hersh?

A. I met Mr. Hersh—the first time I met Mr Hersh was in Los Angeles.

Q. The Hollywood area there?

A. That is right.

The Court: What was his first name, please?

A. His first name was—I just can't think of it right now.

Mr. Fink: May I suggest the name? The witness seems to be confused.

Q. Was that David Hersh? [8]

A. David Hersh, that is right.

Q. You met him, you say, in Hollywood early in 1946? A. That is right.

Q. Did you have discussions with him?

A. Yes, we discussed the——

Q. Just a moment, please. Did you also have discussions with Mr. Coslow? A. That is right.

Q. Did you also have discussions with Mr. Sebastian at that time? A. Yes.

Q. Were these discussions held jointly or separately with each of these gentlemen?

A. Well, they were held jointly and I talked to each one of them in the room there.

Q. Approximately on how many occasions in the early part of 1946 did you see Mr. Hersh?

A. I saw Mr. Hersh several times. He would come up to San Francisco and I would visit with him in Los Angeles.

Q. Did you have telephone conversations with him, also? A. Yes.

(Testimony of Maurice P. Koch.)

Q. In your early discussions with Mr. Hersh what was the subject of your discussion?

A. The subject of the discussion was producing —promoting, rather, and financing a pre-production money on motion pictures. [9] We were going to——

Q. Tell us for a moment in a little more detail just what you mean by that.

A. We talked about making a lot of pictures. Mr. Hersh at that particular time was working for Ideal Factors in New York, and Mr. Hersh was in the business of loaning secondary money completion money to pictures that had already received bank money and pre-production money, and he had produced one, two, or three pictures himself.

We discussed going into the promotion and financing of motion pictures. We were going to make some big pictures and some B pictures.

Q. What part were you to play in this? What was your contribution toward the production of pictures going to be? A. We were going to——

Mr. Gillard: I will object to the form of the question as calling for the opinion and conclusion of the witness.

The Court: Sustained.

Mr. Fink: I will reframe the question, your Honor. I recognize this is all generally hearsay. However, the question is directed——

The Court: There is no need to discuss it, Counsel. Ask your next question. The objection is sustained.

(Testimony of Maurice P. Koch.)

Q. (By Mr. Fink): Mr. Koch, was there any discussion that you engaged in at that time with regard to the details of your [10] participation or activity in such a venture?

A. Yes; Mr. Hersh had told me about Sam Coslow. He was a very good friend of Mary Pickford's. Mary Pickford had arranged to give Sam Coslow three releases through United Artists. At that particular time releases were almost impossible to get.

So we decided to form a combine whereby we could use Sam Coslow's releases and we would put up the pre-production money, and Hersh would get the bank money and the secondary money from Standard Capital and start this first picture rolling, and at the turn of the camera we would recoup this pre-production money from the bank money and start the second picture rolling.

Q. Did these discussions occur over several different conversations and visits?

A. Yes, we had a lot of meetings.

Q. Have you given us the substance of the conversations that occurred in these meetings up to this particular point?

A. Well, the most important substance was that we were going to put up the money for the pre-production, and we were going to have something to say as to how the money was used in the pre-production, and Hersh and Sebastian were going to form a partnership to watch over all of these things for me. We were going into this—we found this story, "Copacabana," that we were going into. We also

(Testimony of Maurice P. Koch.)

discussed the participation that we [11] would receive——

Mr. Gillard: Just a minute. Is this a continuation of the same answer?

Is there a question pending of the witness?

Mr. Fink: The last statement may go out.

The Court: Very well.

Q. (By Mr. Fink): Mr. Koch, I show you here a document between Copacabana, Inc., as owner and producer, the name being left blank as to who the producer is. It bears date of April 8, 1946. It appears to be signed by Copacabana, Inc., by Monte Proser as president, Beacon Pictures, Inc., by George Frank, secretary. Are you familiar with this document?

A. Yes, sir. That grants him the right to the name "Copacabana," and the story.

Mr. Fink: The document will speak for itself.

May we offer this, your Honor, as Plaintiffs' Exhibit 4?

Mr. Gillard: I object to that as incompetent, irrelevant and immaterial, having no bearing on the question of the plaintiffs' activities in this case. This is an agreement between two third persons.

The Court: It is time to take the recess at this time. We will take a recess until 2:00 p.m., and I will have an opportunity to look at that at 2:00 o'clock this afternoon.

(Whereupon, a recess was taken until 2:00 o'clock p.m.) [12]

Monday, November 26, 1956, 2:00 P.M.

The Court: Before the recess you offered this document dated April 8, 1946. It may be received in evidence subject to a motion to strike if it is not connected up.

(The Copacabana rights agreement referred to was marked Plaintiff's Exhibit No. 4 in evidence.)

MAURICE P. KOCH

one of the plaintiffs, a witness in his own behalf, on the stand at the time of recess, having been previously duly sworn, resumed the stand and testified further as follows:

Direct Examination
(Resumed)

By Mr. Fink:

Q. Mr. Koch, you told us this morning about your discussions with regard to setting up an operation to finance independent producers and participate in the so-called preproduction or promotion of pictures. Did you discuss this venture and this plan with your brothers, who were your partners, and your sister?

A. Yes. We went through this quite thoroughly, even at the beginning of all these ventures.

Q. Can you tell us whether or not they likewise had discussions with Mr. Hersh?

A. They talked to Mr. Hersh when he was in San Francisco, and he talked to my brothers and sister.

(Testimony of Maurice P. Koch.)

Q. Did they likewise have discussions, to your knowledge, [13] on that subject with Mr. Sebastian?

A. They talked with Mr. Sebastian, too, quite frequently.

The Court: When you say "they," who do you mean?

A. I mean Mr. Sebastian talked to my sister and my brothers quite frequently on these picture deals.

Q. (By Mr. Fink): About this plan?

A. Yes.

Q. And about these ventures?

A. That is right.

Q. Did H. Koch and Sons have legal counsel in San Francisco? A. Yes, sir.

Q. Who was the attorney for your partnership?

A. Morris M. Grupp.

Q. Do you know whether or not Mr. Grupp did anything on behalf of the partnership and as counsel for the partnership in connection with this plan of picture ventures?

A. Well, Mr. Grupp sat in with Hersh and Sebastian when they came up here talking about these picture deals, and myself.

Q. Who was Mr. Grupp acting for in that regard?

A. Mr. Grupp was acting in my behalf?

Q. When you say your behalf you mean you, personally?

A. No; for the firm of H. Koch and Sons.

(Testimony of Maurice P. Koch.)

Q. By the way, in this firm of H. Koch and Sons, do you have a brother, Harold?

A. Yes. [14]

Q. Generally, since the year 1941, what have been his activities in that business?

A. My brother, Harold, has been the plant manager. He has run the factory.

Q. Did he actually do labor in the plant?

A. Yes, he did labor in the plant, and ran the factory.

Q. Going back to the year 1941, when you first started your business—and I assume it was a great deal smaller at that time than it is now——

A. That is correct.

Q. ——what were his duties at that time?

A. His duties were to—well, he would receive the orders, make up cutting tickets, and supervise the entire plant, and supervise the merchandise going through the plant.

Q. Your brother, William, what did he do?

A. He assisted my brother, Harold.

Q. What did your sister do?

A. My sister was in charge of the books.

Q. She is referred to by the name of "Beck"?

A. "Beck," that is right.

Q. Her name is Rebecca?

A. Rebecca Koch Abel, yes.

Q. She took care of the bookkeeping?

A. That is right.

Q. She ran the office, more or less? [15]

A. That is right.

(Testimony of Maurice P. Koch.)

Q. What did you do?

A. I was the general manager of the plant. I ook care of the financing of the business, took care f bank loans, took care of the buying and the sell- ng of merchandise, took care of most everything hat went in and out of the place.

Q. Were you referred to by any title?

A. No. I was the general manager—what you vould call the boss of the business.

Q. Has that same arrangement continued ever ince the time that you, your brothers and your ister took over this business in 1941?

A. Yes.

Q. It had previously been your father's busi- ess? A. That is correct.

Q. You mentioned this morning that a man amed Sam Coslow had an arrangement with Jnited Artists, Mr. Koch.

A. That is right.

Q. I show you here a document which bears date f April 16, 1946, which purports to be a contract etween Sam Coslow and United Artists Corpora- ion. Have you had occasion to see this document?

A. Yes.

Q. You have made a study of it, have you?

A. Not recently. [16]

Q. But you have seen it?

A. Yes, I was very much interested in that in 946.

Q. Could you recognize the signature of Sam Coslow? A. It does look like his signature?

(Testimony of Maurice P. Koch.)

Mr. Fink: I will offer this document as plaintiffs' next in order, your Honor. It purports to be an agreement between Sam Coslow and the United Artists Corporation dated April 16, 1946. It generally provides for the distribution of the films throughout the world.

Mr. Gillard: I object to it, if your Honor please, on the ground that no foundation has been laid for the introduction of it in evidence.

The Court: I do not see the foundation.

Mr. Fink: May I have it marked at this time plaintiffs' next in order?

The Court: Exhibit 5 for identification.

(The agreement referred to was marked Plaintiffs' Exhibit No. 5 for identification.)

Mr. Fink: I will seek to identify the signatures by a later witness in this case, your Honor.

Q. I think you told us this morning that the first of these films, in 1946, in which you intended to participate in the preproduction matters was a picture called Copacabana. Can you tell us whether or not a corporation was organized with respect to that picture? [17]

A. Well, a corporation was subsequently organized for that picture.

Q. What was the name of that corporation?

A. Beacon Pictures Corporation.

Q. Were you an officer of that corporation?

A. No, sir.

Testimony of Maurice P. Koch.)

Q. Did you ever receive any salary from that orporation for your personal efforts?

A. No, sir.

Q. I show you here what purports to be a photo-at of a check of April 25, 1946. It purports to have een drawn by H. Koch and Sons to the order of avid Sebastian. Is this your signature and is that your handwriting? A. Yes, sir.

Q. On the reverse side it purports to bear the ndorsement of David Sebastian and Dave Sebas-an. Are those his signatures?

A. Those are his signatures.

Mr. Fink: May I offer this as plaintiff's next in rder?

Mr. Gillard: No objection.

The Court: Exhibit 6.

(The photostatic copy of the check referred to was marked Plaintiffs' Exhibit No. 6 in evidence.)

Mr. Fink: Perhaps we should note for the rec-rd, your Honor, that by stipulation between coun-l it has been agreed [18] that photostats may be sed with the same force and effect as originals roughout this cause, unless particular objection is ade.

Is that so stipulated?

Mr. Gillard: With reference to those documents have seen photostats of prior to this time, yes, Mr. ink.

(Testimony of Maurice P. Koch.)

The Court: Who do you contend is the maker of this check, counsel?

Mr. Fink: The maker of the check, your Honor, is H. Koch and Sons.

The Court: It appears to be on the personal check of Maurice P. Koch. It appears also to have the personal signature of Maurice P. Koch. That is the reason I asked the question. It does not appear to be a check of Koch and Sons on the printed portion of it.

Mr. Fink: Your Honor, the check appears to be a blank check of Maurice P. Koch, one of his blank forms with his name printed on it. However, the signature reads "H. Koch and Sons," and it is signed by Mr. Koch as a partner.

The Court: It doesn't say "By Maurice Koch." There is no "By" there, is there?

The Witness: May I explain that, your Honor?

The Court: Ask the witness. The check, itself, does not indicate what you say it does.

Q. (By Mr. Fink): Mr. Koch, I show you this check of April [19] 25, 1946. Upon whose bank account was that check drawn?

A. It was drawn on the account of H. Koch and Sons.

Q. Who made out the check?

A. I made out the check.

Q. I see that you did not use a regular partnership check form for it. A. That is right.

Q. You wrote in the "H. Koch and Sons."

A. Yes, sir. May I explain this, Mr. Fink?

(Testimony of Maurice P. Koch.)

Q. Yes.

A. I made out a lot of checks like this, your Honor. I am in a place where I do not have a firm heck with me, and the bank will honor any check. As a matter of fact, our checks are all printed this vay, "H. Koch and Sons," on the bottom, irrespec-ive of what is above the check. As long as the sig-ature of the check appears with H. Koch and Sons, nd my signature below the H. Koch and Sons, hat would be a firm check and would be withdrawn rom the account of H. Koch and Sons.

The Court: Don't you write "By"?

A. No, sir, not on any check, no, sir; it isn't ecessary.

Q. Do you ordinarily use your personal check o make a check upon the firm funds?

A. Only when I am in a deal where I might be t a luncheon in Los Angeles, and we are sitting here, and I have to write [20] a check, I will use ny own check, my own personal check, a counter heck, or a blank check. I have done that on very nany occasions. And the bank has honored all these hecks with my signature underneath the firm name f H. Koch and Sons. It doesn't have to be a rinted check. And this check is legal tender, a egal check.

Mr. Fink: If your Honor please, may I at this ime, since there has been discussion about the heck, pass the check to the jury to view at this ime?

The Court: You may.

(Testimony of Maurice P. Koch.)

Proceed with your next question, Counsel.

Q. (By Mr. Fink): Mr. Koch, what was that check for, the $15,000 represented by that check? What was it for?

Mr. Gillard: I object to that as calling for the opinion and conclusion of the witness.

The Court: I think he may answer for what purpose he gave it.

A. That check was an advancement to Dave Sebastian for the purpose of setting up the corporation of Beacon Pictures Corporation, relative to Hersh and Coslow's interest in that corporation, and $5,000—$10,000 of that check was for that purpose. The other $5,000 was an advancement to the Hersh and Sebastian partnership for expenses to carry on the show and to get things going and rolling on this particular picture. All those moneys were to come back to us—— [21]

Q. (By Mr. Fink): Just what they were for, is the question. A. Yes.

Q. You say $10,000 was to get the corporation started—Beacon Pictures Corporation. Is that the one you have reference to?

A. That is right.

Q. And $5,000 was for what?

A. To get the picture going, for expenses—the "Copacabana" picture.

Q. Had there been any picture, at that time, made?

A. No, sir. This was part of the pre-production money, or for preproduction.

(Testimony of Maurice P. Koch.)

Mr. Gillard: I ask that that go out as the opinion and conclusion of the witness, and move to strike it out. He has testified it went to Hersh and Sebastian.

The Court: The latter part may be stricken.

Q. (By Mr. Fink): I show you here what purports to be a letter of May 17, 1946, or a receipt. It purports to bear the signature of David Hersh. Do you recognize Mr. Hersh's signature?

A. Yes.

Q. That is his signature?

A. That appears to be, yes.

Mr. Fink: We will offer that as plantiffs' next in order, your Honor. [22]

Mr. Gillard: No objection.

The Court: Exhibit 7.

(The letter-receipt referred to was marked Plaintiffs' Exhibit No. 7 in evidence.)

Mr. Fink: I was wondering, your Honor, if it might be helpful to read this into the record at this time.

The Court: It is in evidence and the jury can see it, and will see it, at such time as may be proper. I think it would only encumber the record by reading it in there. It is already in evidence. Do you desire to question the witness about the letter?

Mr. Fink: Not at this time, your Honor.

The Court: If you do not, I do, Counsel, to get something clear in my mind.

Q. You stated of the $15,000 that was mentioned

(Testimony of Maurice P. Koch.)

in this check dated April 25, 1946, that $10,000 was to be used by David Sebastian.

A. $10,000 was to be used by Hersh and Coslow in the forming of the corporation.

Q. For what? What was it to be for?

A. The corporation was to be the vehicle by which they would transact all the business of "Copacabana."

Q. Were you making a gift of this $15,000?

A. No, sir.

Q. What did you get for it? [23]

A. Well, when the corporation was dissolved, I was to receive my $10,000.00 back from Hersh and Coslow, plus a part of their percentage of the picture.

Q. You were to get a percentage of the profits of the picture, were you? A. That is right.

Q. In this letter of May 17, 1946, the opening sentence says, "I hereby acknowledge receipt from you of your check in the sum of $10,000.00." Is that the $10,000.00 that you say was represented by a portion of this check? A. Yes, sir.

Q. It then goes on to say, "You are delivering your check to me to be utilized for the purpose of purchasing 40 per cent of the stock of Beacon Pictures Corporation?

A. That is right.

Q. That was the purpose of the money then?

A. That is right.

Q. (By Mr. Fink): Did you, Mr. Koch, expend other moneys for the expenditures incurred by Se-

Testimony of Maurice P. Koch.)

astian and Hersh in the putting together or promo-
on of this motion picture "Copacabana," that is,
unds in addition to the $15,000.00?

A. Yes, there is another check of $2,500.00 that
ent into Hersh and Sebastian.

Mr. Fink: May the record show that all the doc-
ments which I have exhibited to the witness have
een previously [24] exhibited to counsel for the
overnment, your Honor.

The Witness: That is the check, yes, sir.

Q. (By Mr. Fink): Do you recognize this
heck? A. That is right.

Q. This is your signature?

A. That is right.

Q. Whose account is this check drawn on?

A. H. Koch & Sons.

Mr. Fink: May we offer this as plaintiff's next
order, your Honor?

The Court: No. 8.

(The check referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 8.)

Q. (By Mr. Fink): Mr. Koch, this transaction
hat we have been discussing occurred in the year
946, a little over 10 years ago. Do you purport at
his time, 10 years later, to have all the documents,
l the memorandums involved in this transaction?

A. I can't say that I have all of them.

Q. You do have some of them?

(Testimony of Maurice P. Koch.)

A. That is right, sir.

Mr. Fink: Your Honor, with regard to the next exhibit that I intend to show to the witness, which is a letter dated July 31, 1946, addressed by the witness to David Hersh, we have both the copy, which I represent was taken from the [25] witness' files, as well as the original letter which was sent out. Counsel has stipulated with me that the original letter was taken from the files of Beacon Pictures, and it was received by Mr. Hersh in Los Angeles, is that correct, counsel?

Mr. Gillard: That is correct.

Q. (By Mr. Fink): Mr. Koch, I will show you a letter of July 31, 1946, on the letterhead of H. Koch & Sons. It purports to be your signature.

A. That is right.

Q. Did you write this letter?

A. Yes, sir.

Q. You sent it to Mr. Hersh?

A. Yes.

Mr. Fink: I offer this as plaintiffs' next in order, your Honor.

Mr. Gillard: No objection.

The Court: Exhibit No. 9.

(The letter referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 9.)

Q. (By Mr. Fink): I will show you here a telegram addressed to Maurie P. Koch and purporting to be sent by David Hersh. Did you receive

Testimony of Maurice P. Koch.)

is telegram? A. That is right.

Mr. Fink: May I offer this in evidence as plain-
ffs' next in order? [26]

Mr. Gillard: No objection.

The Court: Exhibit 10.

(The telegram referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 10.)

Q. (By Mr. Fink): I show you here a photo-
at of a check of August 5, 1946, on the account of
. Koch & Sons for $50,000. It purports to bear
e signature of Rebecca Koch on behalf of H.
och & Sons. Is that your sister, a partner's sig-
ature? A. That is right.

Mr. Fink: I offer that as plaintiffs' next in
der, your Honor.

Mr. Gillard: No objection.

The Court: Exhibit 11.

(The document referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 10-A.)

The Court: To get these three documents to the
tention of the jury, perhaps it would be better if
ou read the letter and the check and the telegram.

Mr. Fink: If I may, your Honor. Exhibit 9.
etter on the stationery of H. Koch & Sons, 73
eale Street, San Francisco 5, addressed to David
ersh, c/o Goldwyn Studios, 1421 North Formosa
venue, Los Angeles, California.

(Testimony of Maurice P. Koch.)

"Dear Dave:

"Dave informed me of the conversation he had with you last evening relative to the participation I am to receive [27] for the loan of certain monies to you both for use in Copacabana.

"Subsequent to the above conversation when you were up here we had agreed that I was to receive in addition to the payment of the loan one and a half to two per cent for each unit of ten thousand dollars I advanced to you both. Since you have expressed yourself with a statement to Sebastian that one and a half per cent for each ten thousand dollars advanced is the best that you can do, I must likewise, in all fairness to my people express myself. I am not asking you to compromise with me as I did with you. All I am asking for is what we originally agreed upon. Because of the arithmetic of money versus participation the one and a half per cent should be straight across. So far I have advanced to Hersh and Sebastian $17,500.00. Of this sum Hersh and Sebastian partnership advanced to Hersh individually and Caslow individually the total sum of $10,000.000 which they used as their contribution to Beacon Pictures, Inc. The $7,500.00 remaining is still intact in your partnership firm account. Therefore, any participation I shall receive should be handled as follows:

"For all monies hereafter loaned to you, including the $7,500.00 in your possession, I should receive one and one half per cent participation for

Testimony of Maurice P. Koch.)

ach $10,000.00 unit [25] advanced, direct from Jnited Artists, the distributor.

"On the other hand in return for the ten thou-and dollars originally put up for you and Caslow am perfectly willing to have you work out an quivalent percentage to be paid by Hersh-Sebas-ian partnership.

"Please let me hear from you immediately on he above. Also incorporate in the document drawn n Grupp's office the terms mutually agreed upon nd forward same to me.

"Mr. Grupp also advises me that since the se-urity to protect any advances is not now in exist-nce that it should be understood that I need not ely on such security but may waive the same at ny time I so desire. Such waiver, however, to be n writing signed by me.

"With kindest regards, I am

"Sincerely,

"(S) MAURICE P. KOCH,

"(T) MAURICE P. KOCH."

Mr. Fink: May I, at this time, question this wit-ess about this document, your Honor?

The Court: You may.

Q. (By Mr. Fink): Mr. Koch, to us laymen ome of these terms are not clear and I want to ask ou about them. The letter says, among other things, 'I must likewise in all fairness to my people ex-press myself." To whom do you refer when you say 'my people"? [29]

A. My partners.

(Testimony of Maurice P. Koch.)

Q. You used the word "participation." What do you mean by the use of that word "participation"?

A. That is any participation in the picture, percentages of the picture with them. I was to receive certain percentages along with them for my advancement to them of the moneys.

Mr. Gillard: I move that the answer go out, if the Court please, on the ground that the definition the witness is now trying to place upon the term "participation" is inconsistent with the document itself.

The Court: The answer may remain.

Q. (By Mr. Fink): When you say here, "I should receive one and one half per cent participation for each $10,000.00 unit advanced direct from United Artists, the distributor," what do you mean by that?

A. I felt that when United Artists would distribute the moneys, after they received moneys from the picture houses, they would have all these moneys and then distribute them to Beacon Pictures, and that they should distribute my money to me direct instead of to Beacon.

The Court: Does that mean in gross receipts?

A. That is receipts after they had deducted—that would be receipts after they had deducted their, I believe, 27 per cent for distribution. They received so much for distribution of a picture and the balance of the moneys are sent back to the [30] corporation itself that owned the picture.

(Testimony of Maurice P. Koch.)

Mr. Fink: Turning to this telegram, which appears to be a night letter with a deadline of Los Angeles, California, addressed to Murray P. Koch, Personal, care Koch and Son, 73 Beale Street, San Francisco, August 4, 1946, it reads,

"Kindly instruct David Sebastian return immediately. He bring 50,000. Will not give Beacon until properly secured. David talk Weintraub satisfies me everything will be OK. Please have utmost confidence our management and fairness to you. Will complete whatever necessary Davids return. Kindest regards. David Hersh."

Turning to Exhibit 11, it is a check this time on the firm checks that states, "Koch and Sons," signed "H. Koch and Sons." Underneath that, "Rebecca Koch," dated August 5, 1946, "Pay to the order of David A. Sebastian $50,000.00, the sum of $50,000.00 drawn on Pacific National Bank of San Francisco, San Francisco, California," and in the upper left-hand corner the voucher, which is part of the check, there appear these words: "8/5. In line with understandings arrived at re Copacabana picture."

Mr. Gillard: Is this in evidence, counsel?

Mr. Fink: Yes, it is Exhibit 11. The photostat of the reverse side of the check shows "Deposit to the account of Hersh and Sebastian and David A. Sebastian."

Q. By the way, at or about the time of that $50,000.00 check, [31] or shortly thereafter, did you participate in negotiations for other picture deals?

(Testimony of Maurice P. Koch.)

A. Yes, we were——

The Court: Just answer the question.

The Witness: Yes.

Q. (By Mr. Fink): Can you tell us approximately how many different deals were looked into by you over the period of the last six months of 1946?

Mr. Gillard: I object to that as vague and speculative, and calling for the opinion and conclusion of the witness.

The Court: I think in view of the objection he would have to give the individual contacts.

Q. (By Mr. Fink): I show you here a letter on the letterhead of Beacon Pictures, signed Charles Weintraub, of September 9, 1946, and ask you if you are familiar with that letter. A. Yes.

Q. Do you know Charles Weintraub?

A. Yes, I do

Q. How long have you known him?

A. I have known Charles Weintraub for about 25 or 26 years.

Q. Do you recognize his signature?

A. Yes.

Q. This letter has attached to it a document which purports to be a typewritten memo of August 6, 1946. Did this matter come to your attention? [32]

A. Yes, sir, with a lot of other matters.

Mr. Fink: I offer this as plaintiffs' next in order, your Honor.

Mr. Gillard: I will object to this as being incompetent and immaterial, concerning the activities

Testimony of Maurice P. Koch.)

f the Beacon Pictures Corporation, which has othing to do with this individual, who is not even stockholder or director of that corporation, and ven if he were a stockholder or director, the busiess of the corporation would not be his business s an individual, as a partner of H. Koch & Sons.

Mr. Fink: I would have some additional questons to ask the witness on this subject, your Honor, n view of the objection counsel has made.

Q. Mr. Koch, will you tell us whether or not here was ever any discussions to the effect that a icture deal called the "Long November" would ver be a part of the Beacon Picture setup?

Mr. Gillard: Objected to as incompetent, irreleant and immaterial. That corporation's business is ot the business of this individual.

The Court: The objection may be sustained.

Q. (By Mr. Fink): Mr. Koch, on or about the ear 1946 and the year 1947, which is in question in his trial, were you familiar with the practice which enerally prevailed in the independent picture busiess with regard to the use of [33] corporations?

Mr. Gillard: I object to that as incompetent, irelevant and immaterial.

The Court: The objection may be sustained.

Q. (By Mr Fink): Can you tell us, Mr. Koch, hether or not the picture or the proposed picture, The Long November," whether that had anything o do with Beacon Pictures Corporation?

Mr. Gillard: I object to that as incompetent, irelevant and immaterial.

(Testimony of Maurice P. Koch.)

The Court: I will permit him to answer that.

The Witness: That was——

The Court: Just answer the question.

Mr. Fink: Did it have anything to do with Beacon Pictures?

A. Some of the people in Beacon Pictures.

Q. You mean some of the same people were in "The Long November" deal who were in the Beacon Pictures deal? A. That is right, sir.

Q. Did the deal "The Long November," was it ever planned for Beacon Pictures Corporation or was it planned for some other setup?

A. That was planned for some other setup.

Mr. Fink: We would like to offer the exhibit, your Honor, that pertains to this "Long November" transaction merely to show the activity at that time. [34]

Mr. Gillard: If your Honor please, I will renew my objection. The idea of trying to prove that this taxpayer was involved in the business of financing motion picture productions by virtue of the activities of everybody else in Hollywood with reference to other matters is not a relevant subject for us to go into.

The Court: The objection may be sustained.

Q. (By Mr. Fink): Let us put it this way, Mr. Koch: In the year 1946, how much of your time did you devote to the promotion and financing of motion picture ventures?

A. About a third of my time.

Testimony of Maurice P. Koch.)

Q. On how many occasions did you go to Holly-
ood? A. Oh, innumerable occasions.

Q. What was the longest period of time you
ayed there at any one stretch solely for picture
ork? A. A little better than three weeks.

Q. When was that?

A. That was in 1946, the latter part of 1946.

Q. Do you recall when the actual production,
at is, the actual photography of the picture "Co-
acabana" started?

A. It was the latter part of 1946. I can't tell
ou exactly.

Q. Were you there at the time? A. Yes.

Q. How long had you been there continuously
connection with the production of that film prior
the day that the [35] cameras turned?

A. About three weeks or better.

Q. This was at Goldwyn Studios, was it?

A. Yes, sir.

Q. By the way, does Goldwyn Studios make their
udios available for lease or rental to so-called in-
ependent productions?

A. Not promiscuously.

Q. Do you know whether or not arrangements
ad been made for the use of their facilities for
e picture "Copacabana"? A. Yes, sir.

Q. By the way, during this three weeks' time
hich you were there, prior to the time the photog-
phy of this film started, can you tell us in a gen-
al short statement what you did? I do not want
ou to give us the details of the three weeks of

(Testimony of Maurice P. Koch.)

work, but in a general way what did you do during that period of time?

A. Well, I came down there on a call from Dave Hersh. They told me they were in a lot of trouble down there and they thought I had better come down. Perhaps I could possibly help them, straighten them out. I got down to Sam Goldwyn's studios. They had used up——

Q. Not what had happened, just what you did.

A. They were in trouble. They had used up all the preproduction money. The bank would not come forth with their money. They owed money to the help, to the musicians, to the [36] costume makers, and a strike was threatened at the studio that would have closed down Sam Coslow.

Q. Coslow or Goldwyn?

A. Sam Goldwyn Studios. The bank wouldn't put up their money. The bank reneged on some $700,000.00, and since the Bank of America reneged. Standard Capital reneged along with them, and they had all the members of the corporation down there, sitting there with their hands on their heads and didn't know what to do, and I went in there. I called Max Fink on the phone, called him down there that night, and I told him to sue the Bank of America for a million dollars. We had a letter from the Bank of America stating that if we had all of the things that were necessary——

Q. May I stop you at this point, Mr. Koch.

A. Yes.

Q. I will show you here, Mr. Koch, a letter on

(Testimony of Maurice P. Koch.)

the letterhead of the Bank of America dated September 25, 1946, addressed to Mr. David Hersh. It purports to bear the signature of Bernard Giannini.

A. That is right. That was the letter—that was the basis upon which I was going to sue the Bank of America for a million dollars.

Mr. Fink: May I offer this letter in evidence, your Honor, as plaintiffs' next in order, and I should like to read it to the jury for the record, if I may. [37]

The Court: Any objection, counsel?

Mr. Gillard: No objection.

(The document referred to was thereupon marked Plaintiffs' Exhibit 11 and was read to the jury as follows:)

"Bank of America
"National Trust and Savings Association
"Los Angeles Main Office
"Los Angeles, California,
"September 25, 1946.

"Mr. David Hirsch,
"1041 North Formosa,
"Los Angeles 46, California.

"Re: Beacon Films, Inc.,
(Copa Cabana).

"Dear Mr. Hirsch:

"This Bank is prepared to enter into its usual form of Mortgage, Pledge and Assignment whereunder we are to lend the above-named corporation for the production of the pictured entitled "Copa

(Testimony of Maurice P. Koch.)

Cabana," to cost not in excess of $1,100,000.00, the sum, whichever is less, of $715,000.00 or sixty-five per cent of the negative cost of said picture with interest at the rate of five per cent per annum, based upon our understanding of the following pertinent facts:

"1. Said picture shall be produced at the Goldwyn Studios and will be released for distribution under an agreement with United Artists Corporation [38] satisfactory to the bank, and shall provide for a graudated distribution fee as follows:

Twenty-five per cent of the gross receipts until the negative cost is recovered or recouped; thereafter twenty-seven and one-half per cent of the gross receipts derived from domestic territory; thirty per cent from England; fifty per cent from South America; and thirty-seven and one-half per cent from Australia.

2. The producer shall be Sam Coslow and the director shall be Al Green. The cast shall feature and include Groucho Marx, Carmen Miranda, Steve Cochran, Gloria Jean and Andy Russell. The corporation shall engage the services of a controller or financial officer satisfactory to the bank and production supervision acceptable to the bank shall be provided.

3. The budget of the estimated production cost, the shooting schedule, the completion date, the borrowing period and the release date shall meet with the bank's approval.

4. Standard Capital will advance the sum of not

(Testimony of Maurice P. Koch.)

less than fifteen per cent of the negative cost toward the production and completion of the [39] picture, and will defer and subordinate its loans or advances to the bank's loans.

5. The remaining financing shall be made up of cash and deferments of compensation for services by the producer, director and principals of the cast.

6. Standard Capital will execute an unconditional Guaranty of Completion satisfactory to the bank, and will deposit as security for said guaranty an amount equal to at least fifteen per cent of the negative cost but not less than $155,000.00.

"Yours Very Truly,
(s) "BERNARD GIANNINI,
(t) "BERNARD GIANNINI,
Vice President."

Did you engage in any conferences with these financial institutions, that is, either Bank of America or Standard Capital during that three-weeks period? A. I had you do that, Mr. Fink.

Q. Did you attend to the financial planning at the studio itself? A. Yes.

Q. Was this bank loan made?

A. Yes, sir.

Q. Was the Standard Capital loan made?

A. Yes, sir. [40]

Q. Were the deferments of compensation obtained with regard to Groucho Marx and Carmen Miranda? A. That is right.

Q. How much do they amount to, by the way?

(Testimony of Maurice P. Koch.)

A. Grouncho Marx was around $100,000.00 or better, and I think Carmen Miranda was about $50,000.00

Q. Mr. Koch, after you sent that first $50,000.00, did you receive a note? A. Yes, sir.

Q. I show you here a note bearing date of August 31, 1946, and I will ask you if this is a photostat of a note that you received.

A. That is right.

Mr. Fink: May I offer this as plaintiffs' next in order, your Honor?

Mr. Gillard: No objection.

(Thereupon the document referred to was received in evidence and marked Plaintiffs' Exhibit 12.)

Q. (By Mr. Fink): After you advanced that first $50,000.00 were there additional funds required for the preproduction of the picture "Copacabana"? A. Yes, sir.

Q. Did you advance some additional moneys?

A. Yes, sir.

Q. I will show you here what purports to be a check of [41] October 26, I believe, 1946, made payable to David Sebastian, signed by H. Koch & Sons by Rebecca Koch, that is, your sister, and partner you told us about, is that correct?

A. That is right.

Q. Is that her signature?

A. Yes, sir.

Q. The check is for $30,000.00.

(Testimony of Maurice P. Koch.)

A. That is right.

Mr. Fink: I offer this as plaintiffs' exhibit next in order, your Honor.

(The document referred to was received in evidence and marked Plaintiff's Exhibit 13.)

Mr. Gillard: No objection.

Q. (By Mr. Fink): With regard to that $30,000.00, did you receive a note?

A. Yes, sir.

Q. I show you here what purports to be a note of October 17, 1946, Beacon Pictures Corporation.

A. That is right.

Q. This is a photostat of the note that you received? A. That is right.

Mr. Fink: I offer this as plaintiffs' next in order, note of October 17, 1946, for $30,000.00.

Mr. Gillard: No objection.

(The document referred to was thereupon received in evidence [42] and marked Plaintiffs' Exhibit 14.)

Q. (By Mr. Fink): Going back a bit, Mr. Koch, to the time that you gave your first $50,000.00 check out, did you give that in response to the telegram requesting it? A. That is right.

Q. I will show you here a letter of August 12, 1946, which purports to have the signatures of David Hersh and Dave Sebastian on that letter.

A. Yes.

(Testimony of Maurice P. Koch.)

Mr. Fink: May I offer this as plaintiffs' next in order?

Mr. Gillard: No objection.

(The document referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 15.)

Mr. Fink: May I read this to the jury, your Honor?

The Court: Very well.

(The document was read as follows:)

"Beacon Pictures Corporation
"August 12, 1946.

"Mr. Murray P. Koch,
"2224 Lake Street,
"San Francisco, California.

"Dear Murray:

"I am pleased to inform you that David Sebastian and myself have just concluded all negotiations necessary to complete our deal for the money from you to us to Beacon. We have arrived at a formula of 1.725 per unit of 10,000 [43] each, which will make a total of 8.625 for the $50,000.00 which Dave brought back with him.

"The $10,000 originally advanced to Dave Sebastian and subsequently turned over to me for capital investment in Beacon Pictures will be taken care of by the Hersh-Sebastian partnership interest in Beacon Pictures.

"The attorneys here are already drawing up the

(Testimony of Maurice P. Koch.)

collateral contract which should be ready in the next day or two. In the meantime, we think it advisable that we deposit the $50,000.00 check in the account of Hersh-Sebastian for clearance, so that we can turn same over to Beacon Pictures as soon as the contract is ready. Unless you have objections to this arrangement, we will deposit this check in the Hersh-Sebastian account this next Wednesday, August 14, 1946. If there are any questions or doubts in your mind, wire us at this address to hold up the deposit.

"You will hear from us again later this week.

"Cordially,

"(s) DAVID HERSH,

"(t) DAVID HERSCH,

"(s) DAVE SEBASTIAN."

Q. Calling your attention, Mr. Koch, to the month of August and of September, 1946, did you, during the course of that month, have discussions between yourself and Mr. Hersh, personal discussions, that is? [44]

A. Yes, sir, I had a lot of discussions with him when I was down there trying to get the money from the bank for the picture.

Mr. Gillard: I will move that the answer go out as not responsive to the question.

The Court: It may go out.

Q. (By Mr. Fink): Turning your attention to the time when you advanced the first $50,000.00 and the time when you advanced the second, the $30,000.00—— A. Yes.

(Testimony of Maurice P. Koch.)

Q. Did you during those times and in between those two times have personal discussions with Mr. Hersh? A. Yes, I did.

Q. Did you also have telephone conversations with him? A. A lot of them.

Q. Did you at the same times have personal discussions with Mr. Coslow A. Yes.

Q. And with Mr. Sebastian?

A. That is right.

Q. And telephone conversations also?

A. Yes, sir.

The Court: We will take a recess at this time for ten minutes. Remember the admonition heretofore given.

(Recess.) [45]

The Court: Proceed, counsel.

Q. (By Mr. Fink): I show you here a document entitled "Agreement," bearing date of August 31, 1946, between Murray P. Koch and Beacon Pictures, a corporation, and which bears two signatures, Murray P. Koch and Beacon Pictures Corporation by David Hersh, President. Do you recognize those signatures? A. Yes, sir.

Q. Did you execute this document?

A. Right.

Q. Did you do so for yourself or on behalf of the partnership H. Koch & Sons?

A. On behalf of the partnership H. Koch & Sons.

(Testimony of Maurice P. Koch.)

Mr. Fink: May I offer this as plaintiffs' exhibit next in order, your Honor?

Mr. Gillard: No objection.

The Court: Exhibit 16.

(The document referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 16.)

Q. (By Mr. Fink): Mr. Koch, at the time that you sent this additional $30,000.00, or, rather, delivered another $30,000.00 for the purpose of this picture, did you receive an amended agreement?

A. That is right, sir.

Q. I will show you here a document of October 17, 1946, which purports to bear your signature and that of George Frank, [46] Secretary.

A. That is right.

Q. Do you recognize those signatures?

A. Yes.

Mr. Fink: I will offer this as plaintiffs' next in order, your Honor.

The Court: Exhibit 17.

(The document referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 17.)

Q. (By Mr. Fink): I show you here what purports to be a check of November 22, 1946.

A. Right.

Q. H. Koch & Sons, and underneath the signature of Maurice P. Koch. Is that your signature?

(Testimony of Maurice P. Koch.)

A. Yes.

Q. Check to Beacon Pictures Corporation.

A. That is right.

Mr. Fink: I offer this as plaintiffs' next in order, your Honor.

The Court: Exhibit 18.

(The check referred to was thereupon receceived in evidence and marked Plaintiffs' Exhibit 18.)

Mr. Fink: May I read this to the jury?

The Court: All right.

Mr. Fink: Exhibit 18 is a check on the form of Bank of [47] America, South Hollywood Branch, and that has been stricken out by pencil lines. Then "Hollywood" is stricken out and "San Francisco" is written in, and it says, "San Francisco, California, November 22, 1946. Pay to the order of Beacon Pictures Corporation $20,000.00, H. Koch & Sons, Maurice P. Koch," and then the bank appears to be Pacific National Bank of San Francisco, 11-39. Then the blue stamp at the bottom "Endorsement missing."

Q. Mr. Koch, with regard to this check for $20,000.00 where were you when you signed this?

A. Los Angeles.

Q. Where in Los Angeles?

A. I was at the bank—I was at the Bank of America. I believe it was the Hollywood Branch there some place.

Q. And you used one of their forms to make this

(Testimony of Maurice P. Koch.)

out on? A. That is right, yes.

Q. Insofar as Beacon Pictures is concerned, did they return part of these picture funds that you had advanced in the year 1946? A. No.

Q. Was that $20,000.00 returned?

A. Oh, yes—well, that $20,000.00—may I explain that?

Q. Yes, if you will, please.

A. When I was down there at the time that the bank wouldn't put up—the Bank of America wouldn't put up the seven hundred [48] and some odd thousand dollars, they were in a lot of other troubles there. They hadn't paid the musicians. They had started the production of the picture. They had not paid the musicians. They had not paid the dressmakers, and the union was going to picket the studios, and they needed money for salaries in order to prevent this, and there was quite a bit of turmoil. I came down there to straighten the whole thing out, and the only way to straighten it out was to put in another $20,000.00, pay these people off, and get the studio open until the moneys came in from the Bank of America, and the agreement I made with the boys at the Beacon Pictures Corporation was that as soon as the money came in from the bank, after we had made—remade that loan, that I was to receive the $20,000.00 back, and they agreed to do that. So we went down there and put up $20,000.00 immediately and saved the studio from closing up.

Q. And this $20,000.00 was returned?

(Testimony of Maurice P. Koch.)

A. Yes, sir.

Q. Was that after the bank loan, bank money and Standard Capital money was forthcoming?

A. That is right.

Q. After that money was available for the picture, you got back the $20,000.00?

A. That is right.

Q. And this $20,000.00 check, was that charged to the bank [49] account of H. Koch & Sons?

A. That is on the books, yes, sir.

Q. When that money was returned, that $20,000.00, who did it go back to?

A. H. Koch & Sons, from where it came.

Q. Was there any practice with regard to the use of your name at times instead of the name H. Koch & Sons in business transactions?

A. A lot of times.

Q. I believe that check there bears date of October 22, 1946. When would you say it was that you got that $20,000.00 back?

A. I believe that $20,000.00 came back about a month after we loaned it to them, approximately.

Q. That would be practically the end of 1946?

A. I think so. I mean, the records will show when it came back.

Q. I think you told us that your original discussion with regard to setting up a venture to provide pre-production funds occurred early in the year 1946. During that year, up until the end of the year 1946, did you devote your time or part of your

(Testimony of Maurice P. Koch.)

time to that venture, including the things that you have told us about?

A. Yes, I spent a lot of time trying to promote some pictures, get them together, get the stories together, the stars together, get a deal together. [50]

Q. Turning to the beginning of the year 1947, that being the year in question here, was the picture "Copacabana" then in production? Was it then being filmed?

A. Yes, I believe it was completed the first part of the year.

Q. Prior to the completion of that picture did you come to know a man named Albert E. Green?

A. Yes.

Q. What business or occupation was he in?

A. Alfred Green was the director in "Copacabana." He made "The Jolson Story." He was the director of "Disraeli."

Q. "Disraeli"?

A. "Disraeli." He is quite a producer and a director, and I got to know him quite well while we were making the picture "Copacabana."

Q. From the beginning of the year 1947 did you have any discussions with Mr. Green with regard to independent picture ventures?

A. Yes, sir. As a matter of fact, I believe we drew up some kind of a paper on that whereby we would have Mr. Green's services——

Q. Not what was in the paper. That would not be proper for you to tell us at this time, Mr. Koch, but I show you here what purports to be a copy of

(Testimony of Maurice P. Koch.)

an unsigned document and ask you if you recognize this document.

A. Yes, yes, I know what this is. [51]

Q. By the way, you have told us, I believe, that you had counsel for your partnership H. Koch & Sons here in San Francisco, Mr. Grupp. Did you have counsel in Hollywood? A. Yes, sir.

Q. Who were your attorneys in Hollywood?

A. Fink, Levinthal & Kent.

Q. Was that document prepared to your knowledge? A. By Fink, yes, sir.

Q. Was it prepared at your instructions?

A. Yes, sir.

Q. I notice that the names mentioned as parties to this document are Maurice P. Koch——

Mr. Gillard: Just a minute, counsel. If your Honor please, I object to any testimony from the document until it has been offered in evidence and the Court has passed upon it.

The Court: I take it it is a preliminary question.

Mr. Fink: Yes, it is your Honor.

Q. Maurice P. Koch, Alfred E. Green, David A. Sebastian, and Sidney Rose. Prior to the drafting of this document before you, did you have conversations with the persons whose names we have just mentioned? A. Yes, sir.

Q. Where did these conversations occur?

A. Well, they occurred at your office. They occurred, I believe, at—— [52]

Q. By "your office"——

A. The office of Fink.

(Testimony of Maurice P. Koch.)

Q. Yes.

A. Fink's office. We had lunch together. We went over to Al Green's house. We talked this thing over quite a bit. We had quite a few meetings on this.

Q. Did you have meetings as a group, that is, the names mentioned there? A. Yes.

Q. Did you have individual discussions with the persons whose names you have mentioned?

A. Yes, sir.

Q. What was the subject matter of those discussions?

A. Well, we were discussing the life of Fred Fisher. We wanted to make a story on the life of Fred Fisher and one of the names of the features, Peg O' My Heart.

Q. That is the song title, Peg O' My Heart?

A. One of his song titles, yes, sir. We were going to have all the songs in the picture, though.

Mr. Fink: I offer this as plaintiffs' next in order.

Mr. Gillard: I object to it on the ground that no foundation has been laid.

The Court: I do not think there is yet, counsel, a foundation for that.

Mr. Fink: In that regard, your Honor, this document is not included. [53]

The Court: I realize that.

Mr. Fink: It is offered for the purpose of showing the activities of the plaintiffs in the motion pic-

(Testimony of Maurice P. Koch.)

ture insofar as promotion and financing of motion pictures are concerned in the year 1947.

The Court: But there isn't any foundation for it as yet, counsel, as I see it. You may ask the witness some further questions about it.

Q. (By Mr. Fink): Mr. Koch, was this document prepared at your direction?

A. Yes, sir.

Q. Was it prepared by counsel employed by the plaintiffs in this case? A. That is right.

Q. Did you see the document after it was prepared? A. I did.

Q. Subject to the deal of the Fred Fisher story, or whatever you want to call it, working out——

A. That is right.

Q. Was this document acceptable to you?

A. Yes, sir.

Q. Was it part of the effort you put forth in connection with the business of participating in a promotion and financing of motion pictures in the year 1947? A. That is right. [54]

Q. Was it prepared in the course of that business?

A. Yes, sir.

Mr. Fink: We offer it, your Honor, as plaintiff's next in order.

Mr. Gillard: It may be the Court should look at the document even as a matter such as Mr. Fink is talking about is concerned; this document has no relation at all to the question just asked of the witness.

Mr. Fink: If I may interrupt, your Honor——

The Court: Were you an officer or director of the corporation known as Amabssador Productions?

(Testimony of Maurice P. Koch.)

A. At one time I owned all the stock in Ambassador Productions.

Q. Did you own it at or about the time that this agreement was prepared?

A. No, sir. We were talking about——

Q. Just answer my question. A. No, sir.

Q. At the time this agreement was prepared, were you an officer or director of the corporation?

A. No, sir.

Q. Were you a stockholder in that corporation?

A. At the present time, no. I was subsequent to that agreement.

Q. The agreement provides, Mr. Koch, that you are the sole stockholder of the corporation.

A. I know, but that agreement was never executed and the [55] corporation—I never put any money in the corporation for that stock.

The Court: I do not think, counsel, that there has been any foundation yet laid.

Mr. Fink: But it will probably go along with other documents.

Q. Mr. Koch, was there a corporation called Ambassador Productions, Inc., organized?

Mr. Gillard: I object to that as not the best evidence.

The Court: It is preliminary. I will permit it.

The Witness: Ambassador Pictures, did you say?

Q. (By Mr. Fink): Ambassador Pictures or Ambassador Productions. Just one moment. Ambassador Productions, Inc. A. Yes, sir.

(Testimony of Maurice P. Koch.)

Q. At whose request was that corporation organized? A. Organized at my request.

Q. Did you employ counsel for that purpose?

A. Yes, sir.

Q. Who were the counsel? A. Fink.

Q. Why was that corporation organized? What was the purpose of it?

A. The purpose of that corporation was to set up a vehicle to make the picture which was the life of Fred Fisher. Subsequently it would have been called "Peg O' My Heart." [56]

Q. You told the Court, I believe, at the time this document wherein appears the names of Alfred Green, David Sebastian, Maurice P. Koch and Sidney Rose—— A. That is right.

Mr. Fink: May I have this marked for identification?

The Court: Let it be marked Exhibit 19 for identification.

(The document referred to was thereupon marked Plaintiffs' Exhibit 19 for identification.)

Q. (By Mr. Fink): At the time that Exhibit 19 was prepared by your counsel and under your direction, as you told us, had you intended to organize the company Ambassador Productions, Inc.?

A. That is right.

Q. Did you intend to cause stock to be issued of that organization? A. That is right.

Q. Did you intend at that time to become the sole owner of all the shares of that corporation?

(Testimony of Maurice P. Koch.)

A. That is right.

Q. Had the shares been issued at the time this document was drafted?

A. No, no shares were issued at that time. I mean, there was no money to put up at that time.

Mr. Fink: I now offer in evidence, your Honor, the permit of the Department of Investment, State of California, the original, to Ambassador Productions, Inc., authorizing the [57] issuance of its shares of stock.

The Court: Do you contend that the shares were issued in accordance with the permit?

Mr. Fink: At a subsequent date, your Honor, yes.

The Court: They were issued?

Mr. Fink: Certain shares were issued at a subsequent date pursuant to this permit.

The Court: Exhibit 20.

(The permit referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 20.)

Q. (By Mr. Fink): Prior to the issuance of shares and the completion of the corporate setup of Ambassador Productions, Inc., Mr. Koch, did you have other discussions? A. Yes.

Q. With the same people? A. Yes.

Q. Those mentioned in Exhibit 19?

A. Al Green.

Q. Yes.

A. Yes, we had a lot of discussions. As a matter of fact, we were going to sign a contract with Al

(Testimony of Maurice P. Koch.)

Green to make six pictures and he was going to direct those pictures.

Q. Prior to the time that any stock was issued in a corporation called Ambassador Productions, Inc., did you request that an agreement of employment between Alfred E. Green and [58] Ambassador Productions be prepared? A. That is right.

Q. I will show you here what purports to be a form of employment agreement by Ambassador Productions, Inc., by Alfred E. Green, which bears date of April 28, 1947, and it does not seem to have been executed. A. That is right.

Q. Was this the document to which you have reference? A. That is it.

Q. This document was prepared in 1947. We do not expect you to remember the contents of it. Will you tell us whether you were familiar with this document at the time it was prepared in the year 1947?

A. Well, yes, I was familiar with it because we did talk about a three-year contract and six feature-length pictures, which you have right here in the first paragraph.

Q. And were the discussions which you had preliminary to the carrying through of a deal to purchase a feature picture?

A. These were preliminary, yes.

Mr. Fink: We will offer the agreement between Ambassador Productions, Inc., and Alfred E. Green, dated April 28, 1947, your Honor, and again, if we may, renew our offer of Exhibit 19 for identification.

(Testimony of Maurice P. Koch.)

Since the permit for the issuance of the shares is now in the record, I believe the matters are now tied up perhaps more closely than they were previously.

Mr. Gillard: If the Court please, Exhibit 21, which refers to the employment contract between Ambassador Productions, or whatever that corporation is, and Al Green, is the activity of a corporation which this man is no part of. It is a corporatte activity and not part of the activities of this individual, and as such has no relevancy to these proceedings as to whether he was in business.

The Court: That has not been marked but I will mark that, the employment contract, Exhibit 21 for identification. The objection to it may be sustained.

(The employment contract referred to was thereupon marked Plaintiffs' Exhibit 21 for identification.)

The Court: The witness has testified to certain transactions, but I as yet see no reason to admit the documents which were unexecuted by anybody. The former ruling stands as to Exhibit 19.

Q. (By Mr. Fink): For the moment, staying with this Ambassador Productions matter, Mr. Koch, eventually were there shares of stock in that corporation?

A. There was stock issued in that corporation. Shares, I guess.

Q. To whom were the shares issued?

A. I at one time owned all the shares in the corporation.

(Testimony of Maurice P. Koch.)

Q. Were the shares originally issued to you?

A. I can't remember if they were originally issued to me. [60]

Q. Did anybody else put any money in this company except you? A. No, sir.

Q. Did anyone own any shares to your memory as long as you were active in that company?

A. No, sir.

Q. So far as your memory serves you, were you the only stockholder of that corporation?

A. Until I sold it, yes.

Q. You sold it in what year, Mr. Koch?

A. I think it was in 1948.

Q. That was after the year 1947, would you say, in this case?

A. Yes. It might have been—I doubt it. The record will speak for itself. I sold that to Jack Chertok, and I think there must be a record some place along the lines of the date that I sold it to him, if that is important.

Q. Going back for a moment to this picture "Copacabana", I will show you here a document entitled "Mortgage". It bears date of February 7, 1947. It purports to bear the signature of Beacon Pictures by David Hersh and Charles Weintraub, as President and Assistant Secretary, respectively. Do you recognize those signatures? A. Yes, sir.

Q. It runs in favor of or to Murray P. Koch. By the way, do you sometimes use the name "Murray" instead of "Maurice"?

(Testimony of Maurice P. Koch.)

A. That happens to be my nickname, and I have had that ever [61] since I was in grammer school, and when I got in business about 30 years ago, they have used both of them, and I don't know whether I am coming or going.

Mr. Fink: We offer the mortgage of February 7, 1947, as pluaintiffs' exhibit next in order.

Mr. Gillard: No objection.

The Court: It may be admitted as Exhibit 22.

(The mortgage referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 22.)

Mr. Fink: May the record show with regard to all these documents that they have been exhibited first to counsel for the defendant, your Honor?

Mr. Gillard: That is correct.

Q. (By Mr. Fink): Mr. Koch, in connection with the Al Green deal—we will call it that for lack of a better name—was that transaction fully discussed between you and Mr. Green, Mr. Seabastian and Mr. Rose before the formation or before the activation of Ambassador Pictures? A. Yes, sir.

Q. Had you arrived at your exact thinking with these people prior to the activation of that corporation? A. That is right, we did.

Q. Was the document Exhibit 19 prepared at your direction prior to the activation of that corporation?

A. May I see that document? Yes. This was drawn up before [62] the corporation was formed. I believe it was. It must have been.

(Testimony of Maurice P. Koch.)

Mr. Fink: I offer in evidence a certified copy of the Articles of Incorporation of Ambassador Productions, Inc.

The Court: Exhibit 23.

(The document referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 23.)

Mr. Fink: The filing stamp of the Secretary of State is March 20, 1947, your Honor.

Q. Mr. Koch, I show you here a copy of the Articles of Incorporation of Ambassador Productions, Inc., which seems to have been filed in the Secretary of State's office, Mr. Jordan's office, March 20, 1947, and I show you the incorporators of this corporation who signed these papers. The first name appears to be Cyrus Levinthal. Who is Cyrus Levinthal?

A. One of your partners.

Q. A lawyer? A. Lawyer, yes.

Q. In the office employed by you to set up this corporation? A. Yes.

Q. The name is Max Fink. A. Right.

Q. The same answer? A. Right.

Q. Leon E. Kent. [63] A. Yes.

Q. Raymond Hartmann. A. Right.

Q. Grace Gordon. A. That is right.

Q. Was she a lawyer?

A. No, she was the secretary.

Q. I see the acknowledgement is by Jerome D. Ralston. Who is he?

(Testimony of Maurice P. Koch.)

A. He is one of your partners and also a notary public.

Q. Do any of these people, the names that you have just called off, which appear to be all the incorporators, and all those persons whose names appear on these Articles of Incorporation appear to be in the law office of Fink, Ralston, Levinthal & Kent?

A. That is right.

Q. When you testified a moment ago I asked you certain questions in which I used the word "activation" of the corporation. Do you understand the difference between activating a corporation and merely organizing it or filing articles? A. No.

Q. Let me explain it this way. The filing of the articles for the purpose of my questions I will assume to be the mere skeleton organization. Activating it is when you put some meat on it, put some money into it. I will ask you, sir, at [64] the time these documents Exhibit 19 and Exhibit 21 were prepared, and at the time that you had these discussions with Mr. Green, Mr. Rose and Mr. Sebastian, that you told us about, had this corporation been set up to the extent of having any assets or liabilities?

A. No, it had not.

Q. You mentioned a few moments ago, Mr. Koch, that you had certain business dealings with a man named Chertok. A. Yes, sir.

Q. When did you first meet him?

A. I met Jack Chertok, it must have been the early part of 1947.

(Testimony of Maurice P. Koch.)

Q. What was the occasion for your getting together with him, meeting him?

A. I met him—I was interested in producing—not producing but promoting and financing some motion pictures, and he seemed to be quite a man in his business. He was with MGM for 25 years. He had made a lot of pictures. He had had a lot of Oscars and I got to like him very much. I liked his ability. I liked what he knew about the picture business.

Q. Did you have discussions with him with regard to motion picture projects?

A. Yes, sir. We got into quite a discussion on that and decided to make one big picture and a lot of little pictures.

Mr. Gillard: I am going to ask that the answer go out, if [65] the Court please. I move to strike it out. There is no foundation laid for the conversation.

The Court: The answer may go out.

Q. (By Mr. Fink): Mr. Koch, did you have the discussion with Mr. Chertok with regard to making a feature picture? A. Yes, sir.

Q. Where did that conversation occur?

A. That conversation occurred at the Friar's Club in Hollywood, California.

Q. Did you have more than one discussion with him upon that subject? A. Yes, sir.

Q. Did they occur in San Francisco, Los Angeles, or where?

A. No, we met at his house and another time we met him in San Francisco.

Q. In connection with this discussion in regard to

(Testimony of Maurice P. Koch.)

making a feature picture, was anything done about it? A. Yes, sir.

Q. What was done?

A. Jack went back East. He was to find a good story. He found one book there called, "Hill of the Hawk."

Q. Was this a published book?

A. Yes, that book was written by Scott O'Dell.

Q. Did you at that time read the book?

A. Yes, sir. [66]

Q. Did members of your partnership other than yourself read that book?

A. Everybody read it, yes, sir.

Q. After reading the book, what was done?

A. We thought it was a pretty good story, and we thought we ought to make the picutre, and we started proceedings—that is when we met down there with Jack Chertok. You were present when I gave you the first check for $7,000.00 as a down payment for the rights to the story from Scott O'Dell.

Q. At the same time that you were active in connection with the Hill of the Hawk, did you discuss the making of other pictures? A. Yes, sir.

Q. With those with Mr. Chertok?

A. We discussed a lot of B series pictures with Mr. Chertok, and that is what we discussed with Mr. Chertok at the time. Subsequent to the B pictures and The Hill of the Hawk, we went into the Government training pictures with Jack Chertok.

Q. All of this occurred in the year 1947, the year in question?

(Testimony of Maurice P. Koch.)

A. Yes, sir, we put a lot of money into that one. As a matter of fact, we promoted a million dollars for Jack Chertok on that training picture.

Mr. Fink: I offer in evidence as plaintiffs' exhibit next in order a letter from Annie Laurie Williams, October 17, 1946, addressed to Max Fink, re Hill of the Hawk by Scott O'Dell. [67] We have a stipulation from counsel that this letter was received by me or by my office shortly after the date which it bears.

Mr. Gillard: I will object to it, if the Court please, on the ground it is hearsay. It does not relate to the activities of this witness or his financial transactions.

Mr. Fink: Your Honor, this witness' activities are carried on by counsel, his agents, and by his lawyers.

The Court: Did you have any agreement with Mr. Chertok, written agreement?

The Witness: I had the stock of Ambassador Pictures Corporation—yes, I had notes.

The Court: Did you have any agreement with Mr. Chertok?

A. On Hill of the Hawk?

Q. Yes.

A. I might have. I don't remember. I might have some agreement with him.

Q. Did you make any agreement to produce any picture with Mr. Chertok?

A. Well, I made an agreement with him to finance and help promote money to make these pictures. They

(Testimony of Maurice P. Koch.)

were going to produce the pictures. I was going to finance money to promote the picture.

Q. What do you mean by that?

A. Well, when a picture is made you definitely have to have a [68] bank, money——

Q. You went through all that earlier today.

A. We have the same story here, Judge.

Q. What were you going to do in this matter?

A. Use it for pre-production. This particular money was for the payment—was—we were paying for the picture rights of the story by Scott O'Dell. That was Hill of the Hawk.

Q. Did you buy those rights? A. Yes, sir.

Q. Who?

A. Well, Ambassador Pictures bought them and I owned Ambassador Pictures. Is that correct, Mr. Fink?

The Court: Counsel, this seems to be a letter from somebody in New York which I, at the moment, cannot see the foundation for. I will mark it for identification.

Mr. Fink: May I be heard, your Honor?

The Court: That is 10/17/46. Exhibit 24 for identification.

(The document referred to was thereupon marked Plaintiffs' Exhibit 24 for identification.)

Q. (By Mr. Fink): Mr. Koch, at the time that you had your discussion and the negotiations that led up to the initial investigation into the purchase of the literary property called "Hill of the Hawk,"

(Testimony of Maurice P. Koch.)

was there any particular corporation mentioned? Did the corporation name of any kind enter into your [69] discussions? A. No, sir.

Q. You just told the Court that eventually Ambassador Productions took in its name the title to this literary property "Hill of the Hawk."

A. You mean before I put up money or after? I made the check out to Ambassador Pictures. I knew that Ambassador Pictures was going to buy Hill of the Hawk.

Q. When did you know that?

A. When we had lunch at the Frier's Club, and I gave you the check for $7,000.00.

Q. Is that the first time you decided who was going to own that?

A. I knew we were going to use the corporation but I didn't know which one. I mean, I can't remember. That is 10 years ago. But I do know we made the checks out to Ambassador Pictures Corporation and you gave me all the stock of Ambassador Pictures Corporation as security for the money. That I do know.

Q. When did you say these discussions occurred between you and Mr. Chertok with regard to the making of a feature picture? I think you told us it preceded his trip to New York to find a story.

A. That is right.

Q. When did these first discussions occur?

A. These first discussions occurred the early part of 1947. [70]

Q. Were you advised whether or not Mr. Chertok made the trip to New York?

(Testimony of Maurice P. Koch.)

A. I knew he went to New York.

Mr. Gillard: I object to that as calling for the hearsay statement of the witness.

The Court: Overruled.

Q. (By Mr. Fink): Will you answer, please?

A. I knew he went to New York. I talked to him in New York.

Q. When was it, would you say, that you and your partners read the book "Hill of the Hawk" by Scott O'Dell?

A. That would be—that was sometime in 1947.

Q. By the way, what was the subject matter of this book? What was the nature of the story?

A. It was a beautiful story of early California days.

Q. At the time you first talked with Mr. Chertok about going to New York, at the time he went to New York, at the time you read the book "Hill of the Hawk"—during any of those times was Ambassador Productions or any other corporation name mentioned in your discussions?

A. Ambassador was mentioned. Yes. Yes, at the time we started to put money into Ambassador Productions, we knew we would need a lot of money for pre-production, and we possibly would not have enough of our own money, so we decided to form a corporation called Producers' Finance Corporation to finance money to promote and to produce pictures, to obtain money. [71]

Mr. Fink: I will offer in evidence, your Honor, as plaintiffs' next in order the Articles of Incorporation of Producers' Finance Corporation, which

(Testimony of Maurice P. Koch.)

bears date October 20, 1947, in accordance with the certification of the Secretary of State of California.

Mr. Gillard: No objection.

The Court: Exhibit 25.

(The document referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 25.)

Q. (By Mr. Fink): Mr. Koch, turning to Exhibit 25, I will show you here the Articles of Incorporation of Producers Finance Corporation, and it appears to bear the names of three incorporators only.

A. Yes.

Q. Maurice P. Koch, San Francisco, California. That is you. A. That is right.

Q. Morris M. Grupp, San Francisco, California. Who was that?

A. My San Francisco attorney.

Q. Was he acting at that time as the attorney for the partnership of H. Koch & Sons?

A. That is right.

Q. The third name and last name is Bernice E. Phillips. Who was that?

A. That was Mr. Grupp's secretary.

Q. Was this corporation, Producers' Finance Corporation, [72] organized by the attorney for H. Koch & Sons in San Francisco, Mr. Grupp and his office? A. Yes, sir.

Q. Was he at that time acting for H. Koch & sons? A. Yes, sir.

Q. Did you sign those papers acting on behalf of

(Testimony of Maurice P. Koch.)

the partnership? A. That is right, sir.

Q. Will you tell us what was the purpose of that corporation?

A. That corporation was formed to obtain money from outside sources as well as our own to finance and promote pictures.

The Court: Is this a convenient place to take a recess?

Mr. Fink: Yes, your Honor.

The Court: We will take a recess at this time until 10:00 a.m. tomorrow morning. You will remember the admonition heretofore given you about not discussing the case, forming or expressing an opinion about it until it is finally submitted. 10:00 a.m. tomorrow morning. [73]

November 27, 1956—10:00 o'Clock A.M.

Mr. Gillard: If the Court please, may the defense have an order excluding witnesses from the courtroom? Yesterday I forgot to ask it.

The Court: It is a little late, counsel.

Mr. Gillard: I recognize that, your Honor.

The Court: Any objection to it?

Mr. Fink: The only two witnesses in the courtroom other than the witness on the witness stand are both from out of town and have nothing to do except to be in the courtroom.

The Court: All witnesses in the case of Koch vs. United States may retire from the courtroom. There is a witness room immediately across the hall.

MAURICE P. KOCH

a plaintiff herein, being previously sworn, resumed the stand and testified further as follows:

Direct Examination
(Resumed)

By Mr. Fink:

Q. Mr. Koch, calling your attention to on or about the month of September, approximately that time, in the year 1947, the year in question here, were there any negotiations with Monogram Pictures Corporation? A. Yes.

Q. What was that discussion about?

A. We negotiated with Monogram Pictures Corporation to produce [74] a lot of B pictures.

Q. What do you mean by a "B picture"?

A. A B picture would be cheaper picture than a big picture. The stars would be of lesser importance, the cost of the pictures would be smaller, and the expenses of making the picture would be a whole lot less than an A picture.

Q. Did you have counsel employed at that time for H. Koch & Sons with respect to the Monogram Pictures deal? A. Yes, sir.

Mr. Gillard: Counsel, may we have the "we" identified? He said "we" negotiated. May we find out who "we" was?

Q. (By Mr. Fink): Who was the "we" to whom you have reference?

A. Well, I negotiated for H. Koch & Sons and Mr. Fink was in my employ and was part of the negotiations.

(Testimony of Maurice P. Koch.)

Q. I will show you here what is called a production distribution agreement. Have you seen this document before? A. Yes, sir.

Q. Do you recall approximately when it was that you first saw it?

A. I first saw this document while we were in Los Angeles there before the—this was somewhere around the time we were talking about Hill of the Hawk.

Mr. Fink: We have a stipulation, your Honor, that the letter of September 25, 1947, from Monogram Pictures Corporation was received by Max Fink. We offer the letter together with a [75] contract or document just identified as plaintiffs' next in order.

The Court: I do not understand what you are doing, counsel. Are you offering it in evidence?

Mr. Fink: Yes, your Honor.

The Court: That is what I did not hear.

Mr. Fink: We are offering the contract, together with the transmittal letter as one exhibit.

Mr. Gillard: I object to it as no foundation having been laid.

The Court: I am inclined to think that the objection is good, counsel.

Mr. Fink: I hesitate to call myself as a witness, your Honor, to identify a letter which obviously I received.

The Court: That is not the point of the objection, I do not believe. It was stipulated that you received the letter.

(Testimony of Maurice P. Koch.)

Mr. Fink: And the contract with it. I might note for the Court's attention the top of this letter has the technical staff of the Government's stamp on it, this same document having been in their possession for some years.

The Court: I take it that part is not questioned, that you received the letter and the contract. Whether it is admissible in evidence is the objection that is made.

Mr. Fink: We urge the admission of it upon the grounds that this voluminous contract for the production and distribution [76] of films shows the activity of the witness in the motion picture business.

The Court: I do not believe there is sufficient evidence to justify its admission yet, counsel. The objection may be sustained.

Mr. Fink: May we have it marked as plaintiffs' next in order?

The Court: 26 for identification.

(The document referred to was thereupon marked Plaintiffs' Exhibit 26 for identification.)

Mr. Fink: The letter and the contract are one exhibit, your Honor.

The Court: All right.

Q. (By Mr. Fink): Mr. Koch, are you familiar with the name Harry Fox or were you familiar with it in the year 1947? A. Yes.

Q. What was the nature of Harry Fox's activities in conection with the amusement business?

(Testimony of Maurice P. Koch.)

A. Harry Fox was one of the head people in the United States with relation to songs. He was situated in New York and he would find out for you or negotiate for you to find out if there were any plagiarisms on the songs or whether the songs were owned by the people that were supposed to have owned the songs, so that you would not run into too much difficulty if you would buy a series of songs or a play with the songs in them, [77] of having somebody sue you after you got involved in making the picture.

Q. Were there any negotiations conducted in your behalf—when I say "your behalf," I have reference to H. Koch & Sons—many times I have asked things that you did, and I want you to know each time I have reference to H. Koch & Sons—did you or anyone in your behalf negotiate with Harry Fox for the acquisition of musical properties or songs for motion pictures?

Mr. Gillard: I object to that as incompentent, irrelevent and immaterial, whether anybody acted on his behalf.

Mr. Fink: A person may act through agents, attorneys and others employed by him with the same effect as if they acted for themselves.

The Court: That is true. It calls for a conculsion, counsel. If you have something to prove, get to the point and prove it. This is too general.

Q. (By Mr. Fink): I show you here, Mr. Koch, a letter of July 3, 1947, a letter of September 29, 1947, addressed purportedly by Harry Fox to Max Fink in each instance, and ask you if at the times of these

(Testimony of Maurice P. Koch.)

letters you know whether or not communications were being had with Harry Fox? A. Yes, sir.

Q. Agent and trustee? A. Yes, sir.

Q. Will you read these letters and tell me whether or not at [78] or about the date of those letters you were familiar with the general activity therein described?

A. Yes, this letter is from Harry Fox to Max Fink——

Q. That is all right. You can't tell us what is in the letter.

A. Oh, you asked me to read the letter.

Q. Read it to yourself. That is what I had in mind.

A. Yes, I am familiar with that letter. I am very familiar with that letter.

Mr. Fink: I will offer the letter of July 3, 1947, and the letter of September 29, 1947, to Harry Fox, your Honor, as plaintiffs' next in order.

Mr. Gillard: Objected to on the ground no foundation has been laid.

The Court: Counsel, there isn't any foundation as yet. The answer given by this witness is whether he is familiar with these letters, period. That is all you have shown. On that basis it is not admissible. A lot of people might be familiar with it for a lot of different reasons. I do not think there is any evidence yet that would justify the admission of these letters.

Mr. Fink: Do we, therefore, have in mind the objection having been made on the ground of lack of foundation; I was wondering if that goes only to the

(Testimony of Maurice P. Koch.)

problem of establishing the signature of Harry Fox? [79]

The Court: I do not know.

Mr. Fink: There would not be any other foundational problems that I know of. You will stipulate that I received the letters, will you not?

Mr. Gillard: I will stipulate that you received the letters, yes.

Mr. Fink: I am somewhat apprehensive about this objection, your Honor, because since I am apparently trying this law suit I do not want to become a witness. I can only tell your Honor——

The Court: That may be something that you do not desire to do, but this may become necessary for you. At the moment I can't see the basis for the admission of these letters in evidence. It may be you can establish it. I do not believe you have as yet. You might take your files, and he might have looked at your files and be familiar with them, and all your files would be admissible in evidence on that basis?

Mr. Fink: Your Honor, this has specific reference to the things he has testified to.

The Court: You have not developed from this witness anything that discloses that, counsel. I am not going to go any further with it.

Q. (By Mr. Fink): Mr. Koch, in order to clarify our record here, the letter of July 3, 1947, purports to be on the stationary of Harry Fox. It says, "In re: the story of Fred Fisher." [80]

A. That is right.

Q. On July 3, 1947, were you interested in a pro-

(Testimony of Maurice P. Koch.)

ject which I think you told us about yesterday called "The Story of Fred Fisher"? A. Yes, sir.

Q. Were you interested at that time for the purpose of a motion picture venture in acquiring certain musical rights or song rights and live story rights with regard to Fred Fisher? A. Yes, sir.

Q. At that time what was being done to acquire those rights, if anything?

Mr. Gillard: I object to that as vague and indefinite.

The Court: What did you do, Mr. Koch? Put the question that way?

A. I instructed Mr. Fink to get all the rights to the Fred Fisher story so that we could make a picture of it, and in doing this he had to go through the proper channels to see that everything was tied up properly so that no one could come back at us later and tell us that they owned a part of these songs or a part of this story, because it was an estate, and after you make a picture you could be sued for everything if someone else had an interest in it. And this is Mr. Fox's business of tying these things down.

A Juror: Your Honor, could the gentleman at the desk speak a little louder? I can never seem to get your remarks and I would like to hear what you say. [81]

Mr. Gillard: Thank you. I shall try to do that.

Mr. Fink: We offer this letter of July 3, 1947, on the letterhead of Harry Fox as plaintiffs' next in order.

Mr. Gillard: Same objection, and the further ob-

(Testimony of Maurice P. Koch.)

jection that there is no showing that Harry Fox was the agent employed or in any other fashion authorized to act on behalf of H. Koch & Sons.

The Court: I will admit the letter, there being no question about the fact that the letter was received by the person to whom it is addressed. Is that right?

Mr. Fink: Yes, your Honor.

The Court: Is that right, counsel?

Mr. Gillard: I have so stipulated, that is was received by Mr. Fink.

The Court: It may be marked Exhibit 27.

(The letter referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 27.)

Q. (By Mr. Fink): Mr. Koch, I will show you a letter on what purports to be the stationary of Harry Fox, agent and trustee, dated September 29, 1947, which purports to also relate to the Fred Fisher matter. A. That is right.

Q. On or about the date of September 29, 1947, was Max Fink still acting as your attorney?

A. Yes, sir. [82]

Q. Was he acting in connection with the matter of clearing title to Fred Fisher's songs and story?

A. That is right, sir.

Mr. Fink: May I offer this as plaintiffs' exhibit next in order, your Honor?

Mr. Gillard: Same objection.

The Court: What is it?

Mr. Gillard: No foundation has been laid, and that there is no indication that Harry Fox was an

(Testimony of Maurice P. Koch.)

agent employed or otherwise authorized to act for or on behalf of H. Koch & Sons.

Mr. Fink: It is not contended that Harry Fox was acting for H. Koch & Sons. He was acting for the Fishers, if for anyone. The letters are offered to show the activities that went on, your Honor.

The Court: Is it stipulated that the letter was received by Max Fink? You say there is no foundation. I don't know what you mean by no foundation, counsel. Do you mean it is not signed by Fox, was not received by Fink?

Mr. Gillard: That is correct, your Honor. All I have stipulated to is that the letter was received by Mr. Max Fink. I have not stipulated it was signed by Harry Fox, on his behalf, or by anybody authorized to do so on behalf of H. Koch & Sons.

The Court: It may be admitted as Exhibit 28.

(The document referred to was thereupon received in evidence and marked Plaintiffs Exhibit 28.) [83]

Q. (By Mr. Fink): Mr. Koch, we exhibited to you a while ago a matter relating to Monogram Pictures, Exhibit 26, I believe, for identification at this time. I called your attention to September 25, 1947, at that time. And now I will ask you if on or about November 19, 1947, your negotiations with Monogram Pictures Corporation were still in progress?

A. We were in a lot of other activities then, and they were still writing us, trying to get us——

Q. Not what they were writing you; I do not be-

(Testimony of Maurice P. Koch.)

lieve that you would have the right to tell us the contents of any document, Mr. Koch. Just tell us what was happening. Were there revisions being made to contracts? A. Yes.

Q. And negotiations were being conducted over a period of months? A. That is right.

Q. I will show you here a letter of November 19, 1947, and I will ask you if you will read that letter to yourself, please.

A. Yes, I have seen that letter.

Q. On the date that this letter bears, November 19, 1947, were these negotiations and revisions still going on with Monogram Pictures Corporation?

A. They were.

Mr. Fink: I will offer the letter of November 19, 1947, your Honor, as plaintiffs' next in order. [84]

Mr. Gillard: I will object on the ground that there is no foundation laid, if the Court please. There is no showing that Mr. Fink was acting on behalf of the witness in this connection. The evidence shows that Mr. Fink was a director of Ambassador Pictures Corporation. There is nothing to indicate that he was not acting in that capacity rather than in a capacity for H. Koch & Sons, as distinguished from any corporate activity that H. Koch & Sons was interested in.

Mr. Fink: May I be heard, your Honor?

The Court: Yes.

Mr. Fink: It is rather difficult at best to cover situations that occurred 10 years ago. I have the feeling that the introduction of these documents and

(Testimony of Maurice P. Koch.)

letters would help us revive and reconstruct this situation for the Court and the Jury, and I do believe, although each letter in and of itself may not be important, it helps to tell the story as is occurred 10 years ago.

The Court: However, I believe the objection made by the Government is good. It has not been met by the plaintiffs.

Mr. Fink: May we have it marked?

The Court: It may be marked.

Mr. Fink: We have a stipulation with regard to this letter that is was received, do we not, counsel?

Mr. Gillard: Yes.

The Court: Exhibit 29 for identification. [85]

(The document referred to was thereupon marked Plaintiffs' Exhibit 29 for identification.)

Mr. Fink: We do have a stipulation that the letter was received by our office, counsel?

Mr. Gillard: That is correct.

Mr. Fink: Thank you.

Q. In connection with acquiring the motion picture rights to the book "Hill of the Hawk" by Scott O'Dell, did you have business with Annie Laurie Williams of New York City?

A. Through you, yes.

Q. When you say "you", you have reference to Max Fink? A. That is right.

Q. Or Fink, Ralston, Levinthal and Kent?

A. That is right.

Q. What instructions did you give to your coun-

(Testimony of Maurice P. Koch.)

sel in connection with Hill of the Hawk, the purchase or acquisition of the Hill of the Hawk story and book for picture purposes?

A. I asked you to buy the picture rights of the book. I asked you to protect us against all things that might lead to legal entanglements later on when we would get into the picture, and act as my legal counsel in the matter, protect my interests.

Q. In the months of October, November and December of 1947, and all during the year 1948, did the same attorneys continue to act for you in connection with the Hill of the Hawk story?

A. Yes, sir. [86]

Q. I will ask you to look at these papers that I placed before you and tell us whether or not on the dates mentioned on these documents to your knowledge efforts were being made for the purpose of acquiring Hill of the Hawk?

A. That is right.

Mr. Gillard: I object to that as calling for the opinion and conclusion of the witness.

The Court: Sustained.

Mr. Fink: I offer at this time, your Honor, copy of letter of Max Fink addressed to Annie Laurie Williams, New York. It may be a little cumbersome for our record, your Honor, but I would prefer to offer these one by one if I may. We offer first the letter of October 24, 1947.

Mr. Gillard: I object to it as no foundation having been laid.

Mr. Fink: May we have a stipulation that the

(Testimony of Maurice P. Koch.)

original was sent in accordance with the ordinary course of business?

Mr. Gillard: No.

The Court: Counsel, this witness can testify as to what he did and to what instructions he gave, what activities he had, but I do not believe through this witness you can produce evidence of what somebody else did because he doesn't know anything about it. You can ask him as to what he did, what instructions he gave, what activities he engaged in in connection with such matters as may be relevant, but I think if you [87] intend to prove the activities of some other people, you have to produce some other witnesses.

Mr. Fink: I rather expected certain stipulations, your Honor, on these routine matters. Since we do not have them——

Mr. Gillard: I am going to move that that be stricken, if the Court please.

The Court: It may go out. The statement of counsel is not evidence. It may be stricken.

Q. (By Mr. Fink): Mr. Koch, I show you here a document which bears date of December 12, 1947, entitled "Agreement" between Ambassador Pictures, Inc., as the purchaser, and Scott O'Dell as the owner, or called the owner in this agreement.

A. Yes, sir.

Q. Are you familiar with this document?

A. Yes, sir.

Q. I show you here the signature on the last

(Testimony of Maurice P. Koch.)

page of this document, Exhibit A-5, of Jack Chertok. Are you familiar with his signature?

A. Yes, sir.

Q. Is that his signature? A. It is.

Q. I will show you here the signature on page 13 of the document which precedes the exhibit we refer to and ask you if you recognize the signature that purports to be that of Jack Chertok?

A. That is right. [88]

Mr. Fink: I will offer this document as plaintiffs' next in order, your Honor, and I should like to note for the record that in the upper left-hand corner it bears the stamp of the technical staff. This document was in their possession. That is to be disregarded, I assume, for the purpose of this trial.

Mr. Gillard: I object on the ground it is incompetent, irrelevant and immaterial, and not bearing upon the issues of this case.

The Court: Counsel, I can't see the basis at the present time for the admission of this.

Mr. Fink: I was wondering, your Honor, if it would be helpful for us to discuss the law of the case in relation to these matters.

The Court: Do you desire a recess for that purpose?

Mr. Fink: I think it would be helpful.

The Court: We will take a recess.

(Recess.)

Q. (By Mr. Fink): Mr. Koch, going back for a moment to this Monogram Pictures Corporation,

(Testimony of Maurice P. Koch.)

the matter that we were discussing a while ago with reference to the so-called Class B pictures you told us about, over what period of time were those negotiations carried on?

A. Those negotiations were carried on during the first part of 1947. It might have been the end of 1946. They were carried on for months. [89]

Q. What was your participation, what activity or what part did you play on behalf of H. Koch & Sons in connection with these matters? What did you do?

A. I was down in Los Angeles for conferences. I participated in the deals. There were a lot of changes made in how we were going into the deal and how we were going to make the pictures and what kind of budgets we were going to use and how much money a picture would cost, because we were going to make a series of pictures, and how much money the Monogram people were going to put up in the pre-production with us. I was active in the entire transaction at all times.

Q. During all of this time were you acting for H. Koch & Sons? A. Yes, sir.

Q. That is for your brothers and your sister?

A. That is right.

Q. Were your expenses being paid?

A. By H. Koch & Sons, yes, sir.

Q. By the partnership? A. Yes, sir.

Q. Was that true, by the way, throughout all these motion picture transactions?

A. That is right, sir.

(Testimony of Maurice P. Koch.)

June 9, 1948, which purports to be drawn on the Trust Account of Fink, Ralston, Levinthal & Kent to Annie Laurie Williams, Inc., for $5,000.00.

A. Yes, sir.

Q. Do you recognize the signature of Cyrus Levinthal? A. Yes, sir.

Q. You have known Cyrus Levinthal for how long now?

A. I have known Mr. Levinthal for over 25 years.

Mr. Fink: We will offer these two checks as one exhibit, plaintiffs' next in order.

Mr. Gillard: To the check dated June 8, 1948, payable to Max Fink, for $5,000.00 drawn by Maurice P. Koch, I will object to it on the ground there is no showing that that check has any connection with this case whatsoever. It is merely a check from Maurice Koch to Max Fink. The second check from Fink, Ralson, Levinthal & Kent, I will object to on the ground no foundation has been laid in any way, shape or form, to introduce that check in [95] evidence.

The Court: There is no testimony as to what the purpose of these checks was, as yet.

Q. (By Mr. Fink): Mr. Koch, the check of June 8, 1948, to Max Fink, for $5,000, what was that for?

A. That was the second payment for the rights to the picture, "Hill of the Hawk."

Q. Did you give your attorneys any instructions as to what to do with that money?

(Testimony of Maurice P. Koch.)

A. Yes, sir.

Q. What were the instructions?

A. The instructions were to send the $5,000 to Scott Odell or his agents.

Q. Who were his agents?

A. Annie Laurie Williams.

Mr. Fink: We offer the two checks, your Honor.

The Court: The checks are dated in 1948.

The Witness: Yes, sir.

The Court: They may be admitted and marked Exhibit 32.

(The two checks referred to were marked Plaintiffs' Exhibit No 32 in evidence.)

Q. (By Mr. Fink): Mr. Koch, on or about May 9th or May 10th, 1948, did you give some money to Fink, Ralston, Levinthal & Kent?

A. I might have.

Q. How much? [96]

A. Well——

Mr. Gillard: I object to that as no foundation having been laid. He doesn't even know if he gave any.

Q. (By Mr. Fink): Let me ask this question: What was the total cash amount paid for "Hill of the Hawk"? A. $25,000.

Q. With the exception of the first $7,000 that you told us which went to purchase stock of Ambassador Pictures—— A. Yes, sir.

(Testimony of Maurice P. Koch.)

Q. ——has that $7,000, after Ambassador Pictures got it, what was done with it?

A. It was sent to Annie Laurie Williams for the purchase of the rights of "Hill of the Hawk."

Q. That left $18,000 unpaid, according to my arithmetic. A. That is right.

Q. And that $18,000, how was it paid?

A. The first payment was $7,000. The next payment was $5,000, and which I gave you a check for. The next payment was another $5,000, which I gave you a check for. The last payment was $8,000, which you also received a check for.

Q. I will show you here two checks of May 10th, one for $4,500 and one for $500, to be drawn on the Fink, Ralston, Levinthal & Kent trust account by Jerry Ralston. Do you recognize the signature of Jerry Ralston? A. Yes, sir. [97]

Mr. Fink: We offer these two checks, your Honor, as plaintiffs' next in order.

Mr. Gillard: I object to them as being the activities of a third person not related to this case.

The Court: I take it one thing we should get clear to the jury is that the important thing we are interested in are the activities of this witness and of H. Koch and Sons for the year 1947. Is that correct?

Mr. Fink: Yes, your Honor.

The Court: These checks may be admitted as a part of a transaction which commenced in 1947, to show, if they do show, what the activities were in 1947.

(Testimony of Maurice P. Koch.)

Mr. Fink: Yes, your Honor. Our position, of course, is that the acts of their lawyers are just like their own acts.

The Court: Yes, but that is not the point. This is done in 1948.

Mr. Fink: As your Honor has pointed out, something started in 1947.

The Court: All right, it may be admitted for that purpose, Exhibit 33.

(The two checks referred to were marked Plaintiffs' Exhibit No. 33 in evidence.)

Q. (By Mr. Fink): I will show you check of July 9, 1948, made payable to Annie Laurie Williams, Inc., signed "Fink, Ralston, Levinthal & Kent, Trust Account, by Max Fink." Do [98] you recognize the signature of Max Fink?

A. Yes, sir.

Mr. Fink: Your Honor, these checks may be put together as one exhibit.

The Court: I think they should be part of Exhibit 33, which we just admitted in evidence.

Mr. Fink: Yes.

The Court: And it is admitted for the same purpose, to show, if it does show, any activities in the year 1947.

Gentlemen, we are going to take a recess at this time until two o'clock, and as I have told counsel in chambers, many of these things that are now being presented should have been taken care of in a pre-trial procedure so that the time of the jury and

(Testimony of Maurice P. Koch.)

Q. Returning now to "Hill of the Hawk," I believe you told us that you, that Ambassador Pictures acquired a book called "Hill of the Hawk," the motion picture rights to that book? [90]

A. That is right.

Q. Were there negotiations to your knowledge with regard to the acquisition of that property?

Mr. Gillard: I object to that as incompetent, irrelevant and immaterial.

The Court: I take it that is preliminary. It may be answered.

(To the witness.) Yes or no.

The Witness: Yes.

Q. (By Mr. Fink): What did you do in that connection?

A. I went down to Los Angeles. I discussed the property with you and gave you instructions to purchase the story of "Hill of the Hawk" for Ambassador Pictures Corporation, and for the production corporation. The negotiations of this, and the type of contract that we got, that we received from Scott O'Dell was very important. I sat in on these negotiations with you before the transactions were completed.

Q. Where did Mr. O'Dell live?

A. Mr. O'Dell lived back East.

Q. Did you ever meet Scott O'Dell?

A. I believe I met Scott O'Dell at Jack Chertok's house in your presence.

Q. Did you talk with him about the story of "Hill of the Hawk"? A. Yes, sir.

(Testimony of Maurice P. Koch.)

"Q. Did you spend any time discussing point of view with regard [91] to how a picture was to be made from that story? A. Yes, sir.

Q. To what extent?

A. We talked to the extent that we knew that it had to be a top cast. It had to have women in there, particularly one woman, with a lot of fire, possibly a little Latin in her. We needed characters such as Akim Tamiroff for a father, possibly a person like Gary Cooper for lead in the picture, Jennifer Jones—we figured on Jennifer Jones for the fiery woman, because she's got a little Indian in her.

Q. I show you here a check of December 3, 1947. It purports to bear your signature.

A. Yes, sir.

Q. Is that your signature? A. Yes, sir.

Q. You noticed the date of December 3, 1947?

A. That is right.

Q. The check was made to Ambassador Pictures Corporation, is that right? A. That is right.

Mr. Fink: We will ask that this be marked plaintiff's next in order, Your Honor.

The Court: Exhibit 30.

(The check referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 30.) [92]

Mr. Fink: May we indicate the check is for $7,000.00?

Q. Do you recall where you were at the time you made out that check?

(Testimony of Maurice P. Koch.)

A. Yes, sir, I was at the Friar's Club in Hollywood.

Q. Who was present?

A. Milton Crasney, Dave Sebastian, Max Fink and myself.

Q. And Jack Chertok?

A. And Jack Chertok, yes, sir.

Q. What is Milton Crasney's business?

A. Milton Crasney is an agent and producer. He sells a lot of television shows on a percentage basis and he is doing quite a business at the present time.

Q. Do you know whether or not he is connected with a company called Gene Artists Corpoation?

A. That is right.

Q. Called G.A.C. in the industry?

A. That is right.

Mr. Fink: May we at this time offer as plaintiffs' next in order, Your Honor, the agreement between Scott O'Dell and Ambassador Pictures of December 12, 1947?

The Court: Is it an executed document?

Mr. Fink: Yes, Your Honor. The witness has identified at least the signature of the purchasing party.

Mr. Gillard: I object to that as incompetent, irrelevant and immaterial, not bearing upon the issues of this case. The [93] activity of the Ambassador Pictures Corporation is not the activity of this witness.

(Testimony of Maurice P. Koch.)

The Court: It may be received solely for the purpose of showing that a contract was entered into as of the date that it bears. All of the detail that is in the contract, I take it, is not pertinent to this inquiry. It may be introduced for the purpose of showing that there was a contract that was entered into as of the date it bears.

(The agreement referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 31.)

Q. (By Mr. Fink): Now, what was the purpose of making out that $7,000.00 check just referred to, Mr. Koch?

A. The purpose of making out that check was to buy the stock of Ambassador Pictures Corporation.

Q. Did you know what the $7,000.00 was going to be used for? A. Yes, sir.

Q. What was that?

A. The purchase of "Hill of the Hawk."

Q. Was that the full purchase price or the down payment?

A. That was the first down payment, $25,000.00.

Q. Mr. Koch, I show you here a check of June 8, 1948, to Max Fink for $5,000.00 and ask you if that is your signature, Maurice Koch?

A. Yes, sir.

Q. Did you pay out that $5,000.00 to Max [94] Fink? A. Yes, sir.

Q. I show you a check of the following day,

(Testimony of Maurice P. Koch.)

the Court should not be taken up. By the time you come back at two o'clock I expect you to show all documents to the other side that you are going to offer, so that they have an opportunity to examine them, and that we shall not waste the time of the Court and the jury sitting here while counsel is looking at documents.

How many more documents do you have?

Mr. Fink: They have all been before counsel. I have put them there so counsel can see them all, yesterday and today.

The Court: Why do we wait such a long time for the reading of them?

Mr. Gillard: If your Honor please, I got handed yesterday [99] morning during the course of the trial a stack of about 75 documents. You can recognize during that period of time I did not have a chance to look at them carefully because there was no opportunity while the case was going on.

Mr. Fink: I think the Government has always had copies of the important papers, the longer papers.

Mr. Gillard: I do not think we should encumber the record unnecessarily with this discussion. They gave me seven copies of documents.

The Court: Gentlemen, all of these things should have been done, as I stated before, in a pre-trial procedure, before you ever came into court. I am going to give you until two o'clock to examine all the documents, so that when we go ahead at two o'clock this afternoon we are not going to be faced

(Testimony of Maurice P. Koch.)

by delays by a document being presented then, and the Court and jury sitting here while it is being examined.

We will take a recess at this time until 2:00 o'clock.

(Whereupon a recess was taken until 2:00 p.m.) [100]

Tuesday, November 27, 1956, 2:00 P.M.

The Court: Proceed.

Mr. Fink: By stipulation, your Honor, I should like to offer as one exhibit letter from H. Koch and Sons, signed "Murray," July 8, 1948; copy of reply to that letter signed July 9, 1948.

The Court: It may be introduced and marked Exhibit 34.

(The two letters referred to was marked Plaintiffs' Exhibit No. 34 in evidence.)

Mr. Fink: May I read these into the record and to the jury, your Honor?

The Court: All right.

Mr. Fink: Letter dated July 8, 1948, Exhibit 34, on the letterhead of H. Koch & Sons, Luggage Manufacturers, 73 Beale Street, San Francisco 5, California:

"Dear Max:

"Enclosed you will find the last payment which is $8,000, for the book 'Hill of the Hawk.' It is not

(Testimony of Maurice P. Koch.)

necessary for me to tell you to be sure that this book is tied up completely, as $25,000 isn't 'hay.'

"Will you please send me some sort of a letter advising me that the book is completely paid for and the property of Ambassador Pictures Corp., of which [101] I own all of the stock now, for after all I am responsible to the stockholders and I do not even have a piece of paper showing ownership of this book, as you know all of that is in your office where it should be kept. I should have some evidence of that fact in my files in San Francisco for my stockholders' benefit.

"Please let me hear from you on the above as soon as possible.

"With kindest regards, I am,

"Sincerely,

"MURRAY."

And it shows "Enclosure: Check."

The response to that is dated July 9, 1948, the next day, addressed to Mr. Murray Koch, care of H. Koch & Sons, 73 Beale Street, San Francisco 5, California:

"Dear Murray:

"This will acknowledge receipt from you of your check in the sum of $8,000, which we this day deposited in our trust account. We have this day forwarded our trust account check to Annie Laurie Williams, Inc., agents for Scott O'Dell, author, in the sum of $8,000, which constitutes our final pay-

(Testimony of Maurice P. Koch.)

ment in the acquisition of "Hill of the Hawk" by Ambassador Pictures, Inc.

"You have paid the sum of $25,000, which constitutes [102] the entire cash price to be paid for the motion picture rights on 'Hill of the Hawk.' In addition to the sum of $25,000, Mr. O'Dell is entitled to 5% of the 'net profits,' as the said term is defined in the purchase agreement.

"The ownership of the motion picture rights of 'Hill of the Hawk' is held by Ambassador Pictures, Inc., and all of the outstanding stock of the said corporation has been issued to you and now remains in your name. Under the circumstances, the corporation is entirely under your control.

"Kindest personal regards,

"Yours sincerely,

"MAX FINK."

Q. Mr. Koch, in your letter of July 8, 1948, addressed to Mr. Max Fink, you used the words as follows: "for after all I am responsible to the stockholders * * *" Whom did you have in mind when you wrote the word "stockholders" in this letter?

A. My partners.

Q. During the balance of the year, 1948—I won't go beyond that—did you continue to be the sole stockholder, or did all the stock of that corporation stand in your name? A. Yes, sir.

Q. I believe you told us yesterday that you became involved [103] in some films made for the Signal Corps, and also for the Air Corps.

(Testimony of Maurice P. Koch.)

A. Yes, sir.

Q. When I say "you," I have reference to H. Koch & Sons. Do you understand that?

A. That is right.

Q. Approximately when did the project of making training films first start? I mean the discussions that led up to it?

A. The discussions that led up to the training films first started in 1947.

Q. About when, in that year?

A. I can't tell you exactly when, but it was the latter part of 1947.

Q. In any event, in the year 1947, what was done with regard to the project of these films?

A. The project was discussed, and preproduction money was needed before we could put in a bid for the contract.

Q. Was the financing generally for the making of these films required prior to contracting for them?

A. Yes, sir, because if the preproduction money was not there, and they were awarded the contract, they could not get started.

Q. Were you called upon to make any proofs of the availability of all the money necessary to produce such films?

A. Mr. Chertok took our word for it. We convinced them that [104] we were capable of providing the money, and that was satisfactory with Mr. Chertok.

Q. What did you do in the year 1947 prelim-

(Testimony of Maurice P. Koch.)

inary to the actual contracting for these films and the production of them?

A. Well, we had Mr. Miller up here, and Mr. Chertok. I introduced them to the president of our bank.

Q. Which bank is that?

A. Pacific National Bank.

Q. In San Francisco?

A. In San Francisco. Before they came up here I went down to see Mr. Lee Masters, who is the president of the Pacific National Bank, and told him that I had a terrific deal for him whereby the money would be fairly safe and it would be a good business deal for him, whereby we needed over a million dollars to finance 30 or 40 training pictures for the government, important pictures, and I told him that I was interested in the transaction; that we would supply all of the preproduction money for these training films, and that they would get their money back after completion, or the negative of the film. And I told Mr. Lee Masters that these films were going to be produced by Apex Film Corporation on Vine Street in Hollywood—Lysenko, rather, in Hollywood. I believe that is where his offices were at the time. And I gave them quite a history of Jack Chertok. I told him that [105] Jack was with M.G.M. for over 25 years; he had a lot of "Oscars"; he was a great producer; he had produced a lot of pictures. He had produced "Lone Ranger" pictures for television for General Mills, and was one of the most

(Testimony of Maurice P. Koch.)

competent men and most thought of men in Hollywood, and that I would recommend him very highly.

Q. Prior to the time that you had this discussion with the bankers how many times had you visited with Mr. Chertok with regard to the project of making training films?

A. I visited with him several times. We had a lot of discussions on these training films. We wanted to see the paper work on it. We wanted to know where the money was coming from, from the government; how secure the transaction would be; and the capabilities of Apex Film Corporation in making these films.

Q. How much time would you say you spent in Los Angeles in the year 1947 in preparation for this project?

A. We had many conferences together. I would say I spent a lot of time. I can't remember how much time, but I spent an awful lot of time with him.

Q. By the way, we mentioned this morning a company called Producers Finance Corporation, which I believe you told us was incorporated at your request by Mr. Grupp, an attorney here in San Francisco. A. Right. [106]

Q. Did Mr. Grupp ever attend with you in Los Angeles during the year 1947 in connection with these training films?

A. Yes, sir, Mr. Grupp went down there.

Q. Were you with him? A. Yes, sir.

Q. What happened? What did you do there?

(Testimony of Maurice P. Koch.)

A. We discussed the financing of these various training films.

Q. Subsequent to all of these discussions, I show you here what purports to be copies of telegrams, one bearing date of January 14, 1948, and one January 15, 1948; a notice of award bearing date of January 14, 1948. I will ask you if you received copies of these documents? A. Yes, sir.

Q. Did you receive these copies, or these documents, in connection with your activities in the financing of this project?

A. Yes, sir. I had to know what was going on on this project all the time. I had to be kept informed because I was involved——

Q. The question is, were you informed?

A. Yes, sir.

Q. Did you keep yourself informed?

A. Yes, sir.

Q. Did you continue to be active on this [107] project?

A. Until the completion of the project, yes, sir.

Q. Did you, first of all, loan some moneys?

A. Yes, sir, we did loan some moneys to Apex Film Corporation.

Q. I show you a check of January 27, 1948. It seems to be drawn January 26, 1948.

Mr. Gillard: Pardon me, Counsel. Before you describe the check would you mind making an offer and allowing an objection to be made to it?

Mr. Fink: Do you object to the foundation, Counsel?

(Testimony of Maurice P. Koch.)

Mr. Gillard: Certainly.

Q. (By Mr. Fink): Mr. Koch, is this your signature? A. Yes, sir.

Mr. Fink: May I offer this check, your Honor, as plaintiffs' next in order?

Mr. Gillard: If the Court please, the evidence so far with reference to this Producers Finance Corporation and the manual training films that the witness has just testified to, the testimony indicates that there were preliminary discussions in 1947 which had not jelled into anything. It now appears that the first financial transaction that this witness was in was in 1948, which is subsequent to the year in issue in this suit, and on that ground I will object to any evidence of the financial arrangements with reference to Producers Finance Corporation or Apex Films in 1948. [108]

Mr. Fink: Our position, your Honor, if I may state it, is that this project was conceived and the financing was committed in the year 1947, or there could not have been any proposals or bids made to the company which gave rise to the final contracts which occurred in January of the following year, and that naturally, until you get a contract from the government, there was no need in spending any money. It is true that this check bears date of January 26, 1948.

The Court: I think the witness can testify to his activities in connection with this matter in 1947, and may generally say that payments were made in 1948, if that were the fact. But as to the details of

(Testimony of Maurice P. Koch.)

the individual checks, I do not believe they would be admissible if they were delivered in 1948, and the only reason for showing activity in 1948 is to show, if it does show, what the activities were in 1947.

Q. (By Mr. Fink): Mr. Koch, pursuant to these discussions and negotiations you told us about in 1947, did you thereafter make available funds, your funds, funds of H. Koch & Sons, and funds of Producers Finance Corporation, for this project?

A. Yes, sir.

Q. Did you arrange the million-dollar loan you were talking about a moment ago?

A. Yes, sir.

Q. Were these funds forthcoming for this [109] project. A. Yes, sir.

Q. Were those training films produced?

A. Yes, sir.

Q. Approximately how many of them were there?

A. There were approximately 30 or 40. I can't remember.

Q. Was the nature of these films secret?

A. Pardon me?

Q. Were they classified as secret information?

A. These are fairly classified. I wouldn't discuss them.

Q. In any event, they were actually filmed and delivered, is that correct?

A. They were delivered and paid for.

The Court: In 1948, or thereafter?

(Testimony of Maurice P. Koch.)

A. Thereafter, yes, sir—in 1948 or thereafter.

Q. (By Mr. Fink): You have in mind after January 1, 1948, or after the close of 1947, which is our year in question. They were after that?

A. Yes.

Q. By the way, in your experience in connection with the film business and the financing of film activities, what, in general, are the time problems that are involved?

Mr. Gillard: I object to the question as ambiguous, if the Court please.

The Court: I think it is.

You can reframe it, Counsel. [110]

Mr. Fink: I guess I am a little bit confused by it, myself, your Honor. I am sorry.

Q. In your experience in the financing of films and the setting up of the transaction necessary to produce films, what time delays have you generally experienced?

The Court: From what to what?

Mr. Fink: Well, in the negotiations, preparation leading up to the actual date of the turning of cameras.

Mr. Gillard: If the Court please, I will object to it as incompetent, irrelevant and immaterial. He can ask for the particular sequences involved in the activities Mr. Koch was engaged in, but as to his general experience, that is a little remote.

The Court: That is right. There may be a lot of irrelevance involved in it.

Mr. Fink: That is true. I will withdraw the question.

(Testimony of Maurice P. Koch.)

Q. Mr. Koch, I think you told us yesterday that prior to the actual filming of the picture, "Copacabana," you spent some three weeks at Goldwyn Studios in Los Angeles, or Hollywood.

A. Yes, sir.

Q. I wonder if you could tell us, just what did you do during that three-weeks period—not what was said or done by other people; just what did you do during that three weeks period? [111]

A. I went over the budget of the pictures—of the picture.

Q. What do you mean by "budget"?

A. Well, the budget that allocated so many dollars for costumes, so many dollars for sets, so many dollars for so many dance numbers, floor numbers, on the show. In other words, the budget of the picture, the dollars and cents spent in making the entire picture, which included not only labor, but materials.

Q. In reviewing this budget during that three weeks that you were in Los Angeles did you do anything in connection with the budget?

A. Yes, sir.

Q. What did you do?

A. Well, I visited all of the sets. I went over the sets with the departmental heads. We discussed the costs of these various sets. We cut expenses here; we added more onto other departments.

Q. What do you mean by you "cut expenses here"? Will you give us an example of that?

A. Well, yes. The budget was a little high, and

(Testimony of Maurice P. Koch.)

when we determined to make this picture we allowed so much for the burdget for preproduction, and we knew what we were going to get from the bank and Standard Capital, and we had to keep more or less in line with that budget, for if we went overboard we might be in trouble with the bank or with Standard [112] Capital, and if the picture cost us more money than we figured it would cost us, we would not make what we figured we would make on the picture.

Q. Did you change the amounts of money allotted for any particular sequence in the picture?

A. Yes, sir.

Q. Can you give us an example of that?

A. Yes. We had—well, I will put it to you this way: We had very good people down there, and they are artists. They have a tendency, on sets, to go overboard. Cost sometimes doesn't mean too much to them, but to the producer it means a lot. We got the people in that department together—Sam Coslow, we got Dave Hersh—and we went out on the sets, and we cut the costs of manufacturing these particular sets. We made some of them a little less elaborate; we made some of them a little more elaborate. But we went over these figures to try to keep the costs on these sets within the budget, and the same thing applied to costumes for the girls. They had a lot of dance routines there—they must have had 30, 35, 40, or more there. We cut those down considerably.

(Testimony of Maurice P. Koch.)

Q. What was the occasion for cutting them down?

A. Well, it cost too much money. As I said before, we were trying desperately to stay within the budget as much as we could.

Q. You told us you talked to the individual department heads. [113] Did you make inquiry with regard to the cost of the various elements that were to make up the picture? A. I did, sir.

Q. Did you have occasion to talk to the writers?

A. Yes, we had meetings with the writers. We rewrote that story several times. We had about 11 writers altogether on this picture. "Copacabana," and we had a lot of meetings on this, and we really had to cut it down, because the costs there were getting a bit exorbitant. We had meetings, decided what we were going to do, and we limited the story to a limited amount of writers, letting some of the writers go, and finally made a decision of how it was going to be and what final costs we would eventually wind up with.

Q. Did you read the materials that were prepared from day to day? A. Yes, sir.

Q. Prior to this three weeks stay in the studio had you been to the studio on previous occasions during the preparation of this picture for filming?

A. Yes, I had.

Q. On how many occasions?

A. On many, many occasions.

Q. During the course of the photography, dub-

(Testimony of Maurice P. Koch.)

bing, and the cutting of that film, did you also return to Goldwyn Studios from time to time? [114]

A. I did. I saw the films shown the next day of what was taken the previous day.

Q. Did other members of your family, or your partnership, also go down to Hollywood in the course of the filming of this picture and attend at the studio? A. That is right, they did.

Mr. Fink: I believe that is all at this time of this witness.

The Witness: Do you want these, Mr. Fink?

Mr. Fink: Excuse me. These are dated in 1948, your Honor, so I will not offer them at this time.

Cross-Examination

By Mr. Gillard:

Q. Mr. Koch, as I recall your testimony, your first testimony in this case, the start of your activities was sometime before this "Copacabana" venture, with reference to several matters which, as I believe you expressed it, did not jell, is that correct? A. That's right.

Q. And I understand that along in that period of time it came to your attention from your attorney, Mr. Grupp, that the existing partnership agreement in the Koch family was insufficient to cover any motion picture financing activities on your part, and that pursuant to his suggestion an amendment was made to the partnership agreement? A. That is right. [115]

Q. And that amendment, which is Exhibit 2 in

(Testimony of Maurice P. Koch.)

evidence in this case, was dated the 23rd day of October, 1944? A. That is right.

Q. And the reason for that amendment, Mr. Koch, was that the original partnership agreement required that you spend all of your time in the luggage manufacturing business, and if you did not so spend all of your time in that business your partnership interest was subject to forfeiture?

A. No, sir, I do not believe that is true.

Q. I just asked you the question.

Mr. Fink: Just a moment, please.

I am a little late, your Honor, but may I move to strike the answer for the purpose of the objection?

The original agreement, as well as the amendment to the partnership, speak for themselves, your Honor. I do not think the witness should be called upon to state what they mean or say.

The Court: I think they do speak for themselves. However, counsel may interrogate about them if there is any doubt about what they say.

Q. (By Mr. Gillard): Wasn't the reason for the amendment to the partnership articles, Mr. Koch, the advice of Mr. Grupp that under the existing partnership articles your interest would be subject to forfeiture because you were not entitled to spend any time except in the luggage manufacturing business? [116] A. That is not true.

Q. What was the reason for that amendment, Mr. Koch?

A. One of the main objections—I mean, one of the main reasons to draw up a new agreement was

(Testimony of Maurice P. Koch.)

there is a clause in that partnership agreement that says that if any of the partners are absent from the business—I don't remember whether it is 30 or 60 days; I believe it is 60 days—that for $1,000 we could pay that partner off, and he shall never receive any other remuneration from the business. And it looked to me like we were going into other ventures. The luggage business was—we had been in it before, and we felt after the war the luggage business would sort of slide, which it finally did, and we thought we wanted to get into some other business where we could make some money, and it might take more of my time than what the contract called for, and that is one of the most pertinent reasons Mr. Grupp suggested that we draw up another contract, so there would be no difficulties in the future.

The Court: Mr. Gillard, when you ask that a document be identified, of you will, for the record, say what it is, so the record shows what is—just briefly.

Mr. Gillard: Will you mark for identification, if the Court please, document dated October 10, 1951, notarized by Maurice P. Koch October 15, 1951?

The Court: That is all right. [117]

Mark it Government's Exhibit A for identification.

(The 24-page tax protest referred to was marked Defendant's Exhibit A for identification.)

(Testimony of Maurice P. Koch.)

Q. (By Mr. Gillard): Preliminarily, Mr. Koch, I will hand you Plaintiffs' Exhibit 1, which is the original partnership agreement, and calling your attention to the last paragraph on page 3 thereof, will you read that, sir? A. "It is further"——

The Court: Just read it to yourself.

A. Pardon me (perusing document.)

Yes, sir. I read that.

Q. (By Mr. Gillard): The original partnership agreement provides, does it not, Mr. Koch:

"It is further understood and agreed that all of said parties hereto shall devote all of their time to the interests of the said business and for the benefit thereof." A. That is right.

Q. Wasn't it in connection with that provision that Mr. Grupp advised you that your activities in connection with the motion picture financing were in violation of that agreement?

A. That, and the previous statement that I made. I am not familiar with the entire contract at the present time, but the thing that I told you about, the 60 days, is very prevalent in my mind. [118]

Q. I will show you Defendant's Exhibit A for identification and ask you if that is a document which you executed in October, 1951?

Mr. Fink: I will stipulate the witness signed it. It may go right into evidence.

Mr. Gillard: I do not desire to offer the whole document at this time, if the Court please. I want to direct the witness' attention to certain portions of it as we go along.

(Testimony of Maurice P. Koch.)

Mr. Fink: May I be heard?

The Court: There is nothing before the Court. You stipulated he signed it. That is all, so far, we have reached.

Mr. Fink: If I may, your Honor?

The Court: Let us go on to the next question, please.

Q. (By Mr. Gillard): Subsequent to the date of the execution of the amendment to the partnership articles, in October of 1944, were your activities in connection with the motion picture field pursuant to the amended articles of partnership, those amended articles of partnership?

A. I didn't get the beginning of that. I can't hear you very well, either.

Q. Were all of your activities in connection with your motion picture activities subsequent to October, 1944, pursuant to the terms of the partnership agreement as amended on that date?

A. Did you say prior to that—— [119]

Q. Subsequent—after that time, sir. Were your activities in the motion picture field conducted pursuant to the authority contained in the amended partnership articles of October, 1944?

A. Yes, they were in line with the new agreement.

Q. You got your authority to act in connection with the motion picture business from those articles, did you not, sir? A. Yes.

Q. And all of your activities were pursuant to

(Testimony of Maurice P. Koch.)

the authority contained in that amendment of October, 1944? A. I would say so, yes.

Q. And, Mr. Koch, will you tell us, during the year 1946, what were your activities in connection with the luggage business of the Koch partnership?

A. During the year 1946?

Q. And 1947.

A. I was the general manager of the firm. I did most of the procurement. I did most of the selling. Ran the firm as general manager.

Q. I gather from your answers to Mr. Fink's questions your two brothers were in the manufacturing end of the plant?

A. That is right, sir.

Q. And your sister was the bookkeeper?

A. That is correct.

Q. Outside of that were the business affairs of the [120] partnership, as far as the luggage manufacturing was concerned, in your hands?

A. That is right.

Q. In addition to all the financing and all procurement you also did all the selling?

A. That is right—not all the selling; part of it. We had some commission men out selling to the post exchanges and ship's stores.

Q. Were there any salesmen employed by H. Koch & Sons outside of yourself?

A. No, sir.

Q. Were those commission men you referred to employed during 1946? A. Yes, sir.

Q. Are you certain, Mr. Koch?

(Testimony of Maurice P. Koch.)

A. Yes, sir.

Q. They were employed in 1947?

A. Yes, sir.

Mr. Gillard: By stipulation I will offer in evidence the 1946 partnership return of H. Koch & Sons, a photostatic copy thereof.

The Court: Exhibit B.

(The partnership income tax return for 1946 referred to was marked Defendant's Exhibit B in evidence.)

Mr. Gillard: I offer also the 1947 partnership return [121] of H. Koch & Sons.

The Court: Exhibit C.

(The partnership income tax return for 1947 referred to was marked Defendant's Exhibit C in evidence.)

Mr. Gillard: I offer the individual tax return of Maurice P. Koch for 1946.

The Court: Exhibit D.

(The individual income tax return for 1946 referred to was marked Defendant's Exhibit D in evidence.)

Mr. Gillard: I offer the individual income tax return of Maurice P. Koch for 1947.

The Court: Exhibit E.

(The individual income tax return for 1947 referred to was marked Defendant's Exhibit E in evidence.)

(Testimony of Maurice P. Koch.)

Q. (By Mr. Gillard): Mr. Koch, what area did your selling activity involve?

A. The 12 Western States.

Q. The commission sales that you referred to, do your books and records reflect what portions of the gross sales of the partnership were the result of the activities of those commission men?

A. Yes, those records will speak for themselves. They are in the books.

Q. You do not know at the present time what they are, is that so? [122] A. No, sir.

Q. I will show you Exhibits B and C, which are the partnership returns for 1946 and 1947, and calling your attention to the fact that in the list of expenses for 1946 no expense is shown for commissions paid, whereas there is an item of $28,000 listed as commissions paid for 1947. Does that refresh your recollection as to whether or not commission men were employed in 1946?

A. That is right; they must have started in 1947, then. I am sorry. I was speaking from memory.

Q. What was the gross revenue of the partnership for 1946, Mr. Koch?

A. The gross revenue—well—the cost of goods sold——

Mr. Fink: May I interrupt, Mr. Koch?

I object to that upon the ground it is immaterial what the gross revenue is, your Honor.

The Court: The tax returns are in evidence. I take it any part of them——

(Testimony of Maurice P. Koch.)

Mr. Fink: Then they would speak for themselves, your Honor.

The Court: Yes, they do, but I take it he can ask that. It may be preliminary. I don't know.

Q. (By Mr. Gillard): The gross sales for the partnership for 1946, Mr. Koch, were how much?

A. 1946 were $540,375.82. [123]

Q. And I gather from your testimony you were responsible for all those sales? A. Yes, sir.

Q. What was the gross revenue, gross sales for 1947?

A. 1947 it says "Revenues—Net," here. Is that sales?

Q. Gross sales would be the top figure, I suppose. A. $555,532.46.

Q. Do you know what part of that was the result of your activities as a salesman for H. Koch & Sons?

A. I couldn't tell you offhand. I would have to subtract the amount of sales that were paid commission men from that total, and the balance would be mine.

Q. During 1946 and 1947, Mr. Koch, were you interested in any other business activity besides luggage sales and motion picture financing?

A. Yes, sir.

Q. What business was that?

A. Oh, besides motion picture financing?

Q. Yes, sir.

A. I was interested in a fiber-glass plant.

Q. What was that?

(Testimony of Maurice P. Koch.)

A. I was interested in a fiber-glass plant.

Q. As a part owner?

A. No, sir, not at that particular time, but I finally wound up buying it. [124]

Q. What year was that?

A. That was the year of—it could have been the end of 1946 or the first part of 1947. I can't remember.

Q. Where was that fiber-glass plant located, sir?

A. In San Rafael. I invested a lot of money. I helped finance the company. And I finally wound up buying the plant.

Q. This was in connection with the shift in the luggage manufacturing business to a fiber-glass product? A. That is right, sir.

Q. When did you first start to become interested in that fiber-glass plant?

A. I believe it was around 1946.

Q. With whom were you dealing for the purchase of that property? A. With whom?

Q. Yes, sir.

A. Well, I finally bought it from a Bankruptcy Court.

Q. In connection with that you had to examine the plant that was there? A. Yes, sir.

Q. Go over the books and records of the company? A. No.

Q. You did not do that?

A. No, sir. I owned most of the molds in the company, and the things that they left were practically of no consequence. [125] I just wanted to

(Testimony of Maurice P. Koch.)

make sure no one else got it, because we had spent a lot of money there developing.

Q. How much time did you spend in 1946 investigating and making up your mind about the purchase of that fiber-glass plant?

A. My brothers did most of the investigating. It was mostly engineering, developing, and things like that.

Q. You made the purchase toward the end of 1946?

A. I believe the purchase was made in 1947. I have records on that.

Q. Were you interested in any other business in 1946 and 1947? A. Motion pictures.

Q. Is that all, sir?

A. I can't think of anything right now.

Q. Weren't you actively engaged in the partnership with Farilla & Sons, Mr. Koch?

A. Oh, yes; yes, sir. I was a partner in Farilla & Sons from 1946 to 1947. I forgot all about that.

Q. You were active in the running of that business, were you not?

A. Yes, sir; I was active at the beginning of the business for about six months—helped them out; maybe six months to a year.

Q. What did you do in connection with A. Farilla & Sons, or [126] Farilla & Sons?

A. I helped them in the buying, and gave them a lot of knowledge of merchandising, and I helped them in financing purchases, credits, and things

(Testimony of Maurice P. Koch.)

like that. We did help them in the financing of the business.

Q. As a matter of fact, it was by virtue of your experience and your credit with Koch & Sons that you were primarily of value to the Farilla partnership?

A. Let me explain that. Mr. Farilla was a very good friend of mine. I didn't go into that venture with the intentions of making any money. Mr. Farilla, when he was discharged from the Army, he came down to San Francisco and spent over three months in my house with his wife and child. He had some office up in Portland and Seattle. I knew Frank for about 30 years, and I wanted him to settle down in San Francisco. So I tried to set him up in business. I actually set Farilla up in business in San Francisco. As a matter of fact, when he went into business all that both of us put in was about $2,000 each. It wasn't very long before we got that out of the business.

Q. That $2,000 was hardly sufficient to run a business of the size that the Farilla partnership developed into, was it, Mr. Koch?

A. At that particular time, in 1946, money was turning over fast, and, by golly, we got paid for merchandise in 1946 before [127] we delivered it, practically speaking, and we rolled that money around.

Q. What did you do for the Farilla partnership, sir?

A. Well, I gave Farilla a lot of advice. I helped

(Testimony of Maurice P. Koch.)

him in the merchandising business and I helped him in the buying.

Q. This was continuous throughout the year 1946?

A. Well, practically through the year 1946, yes.

Q. Your return for those activities was substantial, was it not, Mr. Koch?

A. My return—you will find my tax on my return for the profits that we received, yes, sir.

Q. For the year——

A. 1946 and 1947. I got out in 1947.

Q. In 1946 you received as your share of the Farilla partnership $10,432?

A. Whatever is there.

Q. In 1947 you received $9,511?

A. The record speaks for itself, yes.

Q. Now, you first heard about the "Copacabana" deal from whom?

A. I first heard about the "Copacabana" deal from Dave Sebastian.

Q. Do you remember when that was, Mr. Koch?

A. That was in the early part of 1946.

Q. Do you know the date, sir?

A. No, sir. [128]

Q. Was it before or after the Beacon Pictures Corporation was formed?

A. I believe it was—I can't tell you exactly, but I believe it was before it was formed. I am not sure.

Q. Did you have anything to do with the formation of Beacon Pictures Corporation?

(Testimony of Maurice P. Koch.)

A. Personally, no.

Q. That was formed by whom, sir?

A. Beacon Pictures Corporation was formed by Hersh, Coslow—I will tell you who the stockholders were, there—was that your question?

Q. First, who formed it?

A. I think Hersh and Coslow formed it, or Hersh, Coslow, Batchelor, Monte Proser and George Frank. I couldn't tell you who formed it.

Q. Did any of those gentlemen discuss with you the advisability of forming the Beacon Pictures Corporation?

A. I talked to Hersh and I talked to Coslow, and as part of our deal we advanced them money to participate in the stock of Beacon Pictures Corporation. I don't know whether they put the money in there to form the corporation, or whether they put the money in there to buy the stock. I imagine they bought stock. In this picture business it doesn't make any difference. The corporation might have been dormant for a long time, but if it didn't have any money, it didn't have any [129] vehicle to move with, and the money was the thing that counted. So it was formed or it was not formed. I can't remember, now, after ten years.

Q. Do I understand your testimony correctly, Mr. Koch, that you had no part in the advice, or other discussions—any advice or discussions leading up to the formation of Beacon Pictures Corporation?

(Testimony of Maurice P. Koch.)

A. I didn't have anything to do with the Beacon Pictures Corporation.

Q. I believe you testified on direct examination that that first check that was sent by you on behalf of the partnership for $15,000, out of that check $10,000 was for the purpose of incorporating Beacon Pictures Corporation.

A. I just told you a few moments ago that that $10,000 that we gave Hersh, that we sent down to Mr. Sebastian, was for the stock in the corporation, for Hersh and Coslow, and I don't know whether they formed the corporation, bought stock, or if that was part of the deal, but that $10,000 was for stock for Hersh and Coslow, for which they were to pay back the $10,000 plus an interest in the picture.

Mr. Fink: We have a stipulation between counsel that the deposition, which was rather hurriedly prepared—only two days given to the reporter last week for that purpose—may be used without signature with the same effect as though signed and acknowledged. [130]

Q. (By Mr. Gillard): Do you recall you were in my office about a week ago today, Mr. Koch, and I took your deposition in this matter?

A. That is right.

Q. Do you remember, sir, at that time I asked you with reference to this $17,500?

A. Yes, sir.

Q. Do you recall at that time that you told me, on page 31 of the deposition:

(Testimony of Maurice P. Koch.)

"A. All right, then, that was split into two checks. $10,000 of that was given to Hersh and Sam Coslow to form the corporation, and $7,500 of that was given to Hersh and Sebastian for immediate expenses down there to get the thing going, get the picture going."

Do you recall that? A. I did——

Mr. Fink: May I request, your Honor, that the usual foundation be laid; that the witness be shown the deposition and given a chance to read it?

The Court: All right.

The Witness: I remember that. That is right.

The Court: Just a moment. There is no question pending now.

Q. (By Mr. Gillard): Was that your testimony at that time, [131] sir?

A. Yes, sir. I would like to explain that. This transaction occurred about ten years ago. When I went in to take this deposition I was giving you all the answers that I could honestly, from memory. Since then I have refreshed my memory and found out it was not given to them to form the corporation, but it was given to them to purchase some stock in the corporation, and that is of record. I was answering all of these questions—but it did go into the corporation, the money did go into the corporation, and the corporation was there.

Mr. Gillard: I will offer in evidence a certified copy of the Articles of Incorporation of Beacon Pictures Corporation filed in the office of the Sec-

(Testimony of Maurice P. Koch.)

retary of State on April 8, 1946, as defendant's next in order.

The Court: Exhibit F.

(The Articles of Incorporation referred to were marked Defendant's Exhibit F in evidence.)

The Court: Is it convenient to take a recess at this time, Counsel?

Mr. Gillard: Yes, your Honor.

The Court: We will take a short recess.

(Recess.)

The Court: Proceed.

Q. (By Mr. Gillard): Mr. Koch, these first checks that were [132] issued in this situation, the one for $15,000 and the one for $2,500, were the funds of H. Koch & Sons, the partnership, is that correct? A. That is correct.

Q. And you have testified, now, that $10,000 of that went to the partnership of Hersh and Sebastian, and then they used that to buy an interest in Beacon Pictures Corporation?

A. No, sir; I testified that that $17,500 was split up into two parcels. The $10,000 went to Hersh and Sam Coslow for procuring their stock in Beacon Pictures Corporation, and the $7,500 went to Hersh and Sebastian for expenses in getting the show on the road.

Q. The loans were made by H. Koch & Sons to whom?

(Testimony of Maurice P. Koch.)

A. The checks speak for themselves. I believe the check was made out to David Sebastian. I am not sure. I would have to look at them.

Q. That is correct, sir. At that time was Sebastian in the partnership?

A. Sebastian had a partnership with Hersh.

Q. These moneys were advanced to David Sebastian and not to Sebastian and Hersh, is that correct?

A. The moneys were advanced to David Sebastian; he turned them over to the partnership, and I believe the partnership gave them to Hersh and Coslow. That is the $10,000.

Q. As far as you were concerned, the transaction was with [133] David Sebastian and H. Koch & Sons, and was not concerned, therefore, with what David Sebastian did with that money, is that correct?

A. No, sir. Sebastian and Hersh were actually working for me in this deal, and they were looking out after that money, and I was to receive interest in the picture. I was participating in the picture for the money that I put into the Hersh and Sebastian, or the Hersh-Coslow, or Beacon Pictures—as a matter of fact, I think I wound up to be the biggest participator in the entire picture. I had more interest in the picture than any individual.

Q. Your sole interest or remuneration for that money was to come to you from Sebastian or Sebastian and Hersh, was it not?

(Testimony of Maurice P. Koch.)

A. No; we had notes from Beacon Pictures Corporation, too.

Q. I am not referring to the $80,000 represented by notes to the Beacon Pictures Corporation, Mr. Koch. I am referring to this $17,500 which was represented by these two checks to David Sebastian.

A. Yes. When the corporation would have been liquidated at the end of the picture we were to receive—we were to have the $10,000 that we gave Hersh and Coslow back, plus an interest—plus part of their interest in the picture, and the same thing applied to the $7,500 from Hersh and Sebastian.

Q. Are you testifying that you considered the $17,500 loaned [134] to David Sebastian was a direct loan by you to Beacon Pictures Corporation?

A. Well, you speak of a corporation, or a picture corporation. A picture corporation is nothing more—and this is common in the picture business, and I have been related to the picture business for 25——

The Court: Will you answer the question?

Read the question.

Then answer it, and then you may explain.

(Question read by the reporter.)

A. Well, it wasn't loaned to Beacon Pictures Corporation. But can I explain this?

Q. (By Mr. Gillard): The loan was to David Sebastian, is that correct?

A. It was to Hersh and Sebastian.

(Testimony of Maurice P. Koch.)

The Court: You may explain it.

A. The corporations in a picture business is merely a vehicle to move one picture, and when the picture is through the corporation is liquidated.

Now, we deal mostly with individuals, and as far as we were concerned, H. Koch & Sons, it didn't make much difference whether we gave money to Hersh and Sebastian, or Hersh and Coslow, or Beacon Pictures Corporation. It was practically all one part of one money for one purpose in mind, and that was to make a picture called "Copacabana," and we were dealing [135] with individuals and not a corporation, but the corporation was merely the legal vehicle by which the picture moved and borrowed money from the Bank of America and Standard Capital and various other things to complete the picture and release it through various releases as well as United Artists.

I hope I made myself clear.

Q. (By Mr. Gillard): Mr. Koch, subsequently, after the $17,500 transaction, there was advanced by the partnership directly to Beacon Pictures Corporation $50,000, and then $30,000 represented by the checks and the notes which are in evidence, is that correct? A. That is correct.

Q. And those were direct loans by the partnership to Beacon Pictures Corporation?

A. That is correct.

Q. And that was the sum of money, that $80,000, for which you subsequently sued the Beacon Pictures Corporation, is that correct?

(Testimony of Maurice P. Koch.)

A. Not that $80,000, no, sir. We sued Beacon Pictures Corporation for $75,000 in our name and $5,000 in R. J. Haller's name.

Q. That is a total of $80,000?

A. That is right, sir, but it wasn't that particular $80,000. I mean, if you want to put all the moneys together, I can't pinpoint it on that $80,000, because there was $97,500 in the [136] whole deal, and we only sued for $80,000.

Q. What evidence of indebtedness did you have upon which you sued Beacon Pictures Corporation, outside of the two notes in evidence, one for $50,000 and one for $80,000? A. $30,000.

Mr. Fink: To which we object on the ground there is no foundation laid that Beacon Pictures was ever sued, based upon any evidence of indebtedness.

The Court: He may answer if there were not.

The Witness: I don't remember suing them. They went into bankruptcy, I believe. We never sued them.

The Court: A moment ago you said you sued them.

A. No; I meant—he asked me, and confused me—pardon me, sir—Mr. Gillard asked me and confused me. We put in a claim in bankruptcy, is what we did, and the record speaks for itself. It is there.

Q. (By Mr. Gillard): You did not sue Beacon Pictures Corporation? A. No, sir.

Mr. Gillard: May this document, which is a judg-

(Testimony of Maurice P. Koch.)

ment dated in June of 1949, be marked for iden tification?

The Court: Exhibit G for identification.

(The default judgment referred to wa marked Defendant's Exhibit G for identifica tion.)

Q. (By Mr. Gillard): I will show you Exhibi G for [137] identification, Mr. Koch, and ask you if this refreshes your recollection as to whethe you sued Beacon Pictures Corporation.

A. Well, I have forgotten this completely, be cause I never was there at the trial.

Q. Does that refresh your recollection, sir?

A. I just can't remember suing them, but I guess it must have been. It says here that we sued and since Beacons never showed up, they gave us judgment.

Q. That is correct, sir?

A. I didn't remember that.

Q. I will show you a transcript of your deposi tion taken last week, on page 38 thereof, and ask you to read your answer at the bottom of that page

A. (After perusing deposition.) This con fused me.

Q. Let me ask you a question, Mr. Koch.

A. Yes, sir.

Q. At that time did I ask you the question as to whether or not the basis of the suit——

The Court: Read the question.

Q. (By Mr. Gillard, reading): "Q. Mr. Koch

(Testimony of Maurice P. Koch.)

this suit was—the basis of this suit was two promissory notes signed by Beacon Pictures Corporation, each in your favor, one for $50,000 and one for $30,000, wasn't it? [138]

"A. That is correct."

Mr. Fink: Will you read on, Counsel.

Q. (By Mr. Gillard): Is that the question and the answer?

A. Yes, sir. May I explain that, please? In my mind I know that we filed for the money that was coming to us, in bankruptcy, and I didn't know whether that was a suit or whether it was filed in bankruptcy as money that was coming back to us, and I guess I am confused relative to the suit and the bankruptcy, but we did put in a claim for it either way.

Q. You are referring now to the second document in Exhibit G, which is the claim signed by you on July 20, 1949, in the matter of Beacon Pictures Corporation.

A. That is my signature. That is what I thought we had. Is that the bankruptcy?

Q. Yes, sir.

A. That is the one I thought.

Q. Looking at those two documents together, Mr. Koch, is your recollection refreshed that you sued Beacon Pictures Corporation for $80,000; that the claim included some $15,000-odd of interest, making a total claim of $95,319; that you filed that claim in bankruptcy and supported it with a copy of the judgment secured which you have in front of you?

(Testimony of Maurice P. Koch.)

A. Evidently that is what was done here.

Mr. Gillard: I will offer those two documents in [139] evidence, if the Court please.

The Court: They may be admitted and take the same letter.

(The two documents formerly marked Defendant's Exhibit G for identification were now received in evidence and so marked.)

Q. (By Mr. Gillard): Mr. Koch, you testified extensively as to some activities on your part in the latter part of 1946, when you said they were having difficulty with this "Copacabana" film. At that time your sole interest in this matter was as an investor in Beacon Pictures Corporation as represented by the monetary transactions we have already discussed, is that correct?

A. Well, I was more than an investor. I actually participated in "Copacabana."

Q. You mean in the making of the picture?

A. Yes, sir.

Q. I gathered from your testimony on direct examination that you were sort of an advisor to the producer, to the cameraman, to the property men, and to the scenery makers, and to the financial men, and everybody concerned with that picture, is that right? A. I didn't say I was an advisor.

Mr. Fink: Just a moment, please.

I object to the question, your Honor, on the ground it is [140] argumentative.

The Court: Sustained.

(Testimony of Maurice P. Koch.)

Mr. Fink: Thank you.

Q. (By Mr. Gillard): At the time that you went down there, you testified on direct examination that you told Mr. Fink to file a suit against the Bank of America for a million dollars.

A. That is right, sir.

Q. Did you have any contracts or contractual obligations with the Bank of America?

A. Personally, no.

Q. When you were talking about the fact that you asked Mr. Fink to sue the Bank of America, you were talking about on behalf of Beacon Pictures Corporation? A. That is right.

Q. And your sole interest at the time in seeing that the Bank of America and Standard Capital came through with their loans was for the purpose of protecting the pre-production money which you had already advanced, is that correct?

A. Well, that and a lot of other things.

Q. What other things?

A. Well, my main purpose of going down—my main purpose of making sure that we got the bank money was not only to protect the money that we had put in Beacon Pictures Corporation but to see that the picture was made so that we could make a dollar off of it. After all, I had spent a lot of time in [141] promoting this thing and we not only wanted to get our money out of it but we wanted to get a profit.

Q. Prior to the end of 1946, at the time "Copaca-

(Testimony of Maurice P. Koch.)

bana" was started to be filmed, what had been your experience in making motion pictures, Mr. Koch?

A. Well, I have seen a lot of pictures, I have been on a lot of sets in the last 25 years. My father-in-law was a pretty large person in motion pictures.

Q. I asked you what your experience was.

A. I had been down in Hollywood with my father-in-law when he was alive. We had discussed a lot of pictures backwards through 1944. We had gone into a lot of deals, and as far as the business ability of making motion pictures and promoting motion pictures, there is not a lot of difference in that business and merchandising as there is in other businesses. You can hire artists, you can hire writers, you can hire directors, you can hire producers, and if you have got a pretty good knowledge of what is going on, you can make a picture.

Q. Now, sir, to go back to my question, what is your personal experience in making motion pictures prior to this time?

A. In making motion pictures?

Q. Yes.

A. Well, I never actually made one myself I don't know anyone that has. [142]

Q. Were you ever an employee of a company that did make a motion picture prior to this time?

A. No, sir.

Q. Were you ever on anybody's payroll in connection with the making of a motion picture prior to that time? A. No, sir.

Q. The next corporation you testified to was the

(Testimony of Maurice P. Koch.)

Ambassador—is that Ambassador Pictures Corporation? A. That is right.

Q. Or Ambassador Production, Inc.?

A. We called it both. They are Ambassador Productions Corporation.

Q. The idea for the formation of that corporation came from Mr. Fink, did it?

A. Well, not exactly. I talked to Mr. Fink. We were talking about a group of pictures that we were going to make with Al Green, and I talked to Mr. Fink and told him I thought it would be a good idea to get a corporation up so we would have a vehicle which to roll on. After all, I had been in one picture "Copacabana," and I had loaned money.

Q. The moneys that were put into the Ambassador Production, Inc., was your personal money, was it, Mr. Koch?

A. At that particular time it came out of my personal funds.

Q. Checks were drawn upon your personal account? A. Yes, sir. [143]

Q. And it was not a partnership loan, was it, Mr. Koch?

A. Well, the partnership was a little short at the time, so I advanced the money personally.

Q. It never was a partnership transaction, was it? A. Yes, sir.

Q. Was it reflected as such on the books of the partnership? A. No, sir.

Q. In any way, shape or form?

A. No, sir.

(Testimony of Maurice P. Koch.)

Q. You talked on direct examination in connection with a total of $25,000.00 advanced to Ambassador Pictures Corporation? A. Yes, sir.

Q. Was that $25,000.00 all your money?

A. No, sir.

Q. How much of it was your money?

A. $17,000.00.

Q. How much of it was the money of somebody else?

A. $8,000.00 came from Producers' Finance Corporation.

Q. And that was advanced by Producers' Finance Corporation to Ambassador Productions, Inc.? A. Right, sir.

Q. A corporate loan from Producers' Finance to Ambassador Productions?

A. That is right, sir.

Q. Do you know when you received your stock in Ambassador [144] Productions?

A. I don't know exactly, but I think you have a record of it there. It was in 1947, I think. I am not sure.

Q. The permit to issue stock, Mr. Koch, is dated April 16, 1947. Would that refresh your recollection as to when you purchased any stock in that corporation?

A. I gave Max Fink a check for the stock at the Friar's Club in Hollywood, and it was some time later that he mailed me the stock of the corporation. I believe you have some letters that we put in evi-

(Testimony of Maurice P. Koch.)

dence that will give you the date. I can't give you the date.

Q. The check you refer to is a check for $7,000.00?

A. The first check I gave him was for $7,000.00. That was for the stock of the corporation.

Q. That is Exhibit No. 30. That is the check of December 3, 1947, is that correct?

A. If that is for $7,000.00, yes.

Q. And that was the only stock that Ambassador Productions issued, is that correct?

A. That is correct. I had all of the stock.

Q. And you were the sole stockholder?

A. I was the sole stockholder, yes, sir.

Q. And from that point on all your dealings with Ambassador Productions, Inc., were as the sole stockholder of Ambassador Productions, Inc., is that correct? [145]

A. Yes, I was the sole stockholder.

Q. All of the testimony that you have given yesterday and today with reference to the affairs of Ambassador Productions, Inc., your participation in those affairs was as the sole stockholder of Ambassador Productions, Inc.?

Mr. Fink: To which I object, your Honor, on the ground it assumes facts not in evidence.

The Court: You have asked the question. He may answer it "yes" or "no."

The Witness: Would you rephase that? That is taking in a lot of territory.

The Court: Read the question.

(Testimony of Maurice P. Koch.)

(Question read.)

The Witness: I don't know what he is talking about there.

The Court: Reframe your question. I wish you would rephrase that question.

Q. (By Mr. Gillard): Your interest in Ambassador Productions was as the sole stockholder, was it not, Mr. Koch?

A. Yes, I owned all the stock or the firm of H. Koch & Sons owned all the stock of Ambassador Pictures Corporation.

Q. And from that time on your dealings with reference to that corporation or on behalf of that corporation, you were acting as the sole stockholder thereof?

A. May I ask you, what do you mean?

Q. I believe you testified, Mr. Koch, with reference to [146] numerous affairs. You are more familiar with them than I am because I have just rough notes on them. I believe you have testified at length with reference to the affairs engaged in by Ambassador Productions, Inc.

A. That was "Hill of the Hawk."

Q. Is that the only matter that you were concerned with in Ambassador Productions, Inc.?

A. "Hill of the Hawk" was the only thing that Ambassador Productions owned, yes, sir.

Q. In your transactions with reference to "Hill of the Hawk," you were acting as the sole stockholder of Ambassador Productions, Inc.?

(Testimony of Maurice P. Koch.)

A. That is right. "Hill of the Hawk" only.

Q. That "Hill of the Hawk" was never produced, was it?

Mr. Fink: To which I object as being immaterial, your Honor. It so happens that what may have happened years later, including the present time, with regard to that property is not material to this case. I will be glad to go into it if counsel wants to go into it.

The Court: I think he can answer the question "yes" or "no." He has been asked about it already.

(The last question was read.)

The Witness: No, sir.

Q. (By Mr. Gillard): And you eventually sold your entire interest in Ambassador Pictures, both your stock interest and [147] whatever interest the corporation had in the picture, to Mr. Jack Chertok? A. That is correct.

Q. The Producers' Finance Corporation was incorporated on October 20, 1947. You were one of the directors of that corporation, were you, Mr. Koch?

A. Producers' Finance? I am the president.

Q. You were one of the directors and then you became the president, is that correct?

A. I think I was always the president.

Q. And you were one of the original incorporators or directors named in the Articles?

A. I am one of the original incorporators, yes, sir.

(Testimony of Maurice P. Koch.)

Q. And you were immediately elected president of the corporation when the organization was formed, is that correct?

A. If that is the way they do it, that is what happened. But I am the president and always was. I am not too familiar with those things.

Q. With reference to Producers' Finance Corporation, you have testified to certain transactions?

A. Yes, sir.

Q. What were they, sir?

A. Well, Producers' Finance Company loaned money to Ambassador Pictures Corporation for the purpose of "Hill of the Hawk." We were to provide the money for the making of the picture [148] "Hill of the Hawk." We went into Government training pictures, about 30 or 40 of them.

Q. That was with Apex Films?

A. Apex Films, yes, sir.

Q. You testified something with respect to Monogram Pictures, did you not, sir?

A. Yes, we had quite a lot of dealings with Monogram, but we never did actually consummate a deal where we put up any money.

Q. Was that in connection with Ambassador Pictures or in connection with Producers' Finance?

A. That was not in connection with either one of them. There was no money put up. It was again people talking, myself and Monogram and Max Fink, and the people that were interested in making the pictures.

Q. Then to go back to Producers' Finance, the

(Testimony of Maurice P. Koch.)

deals that you have testified to that that corporation was interested in were the "Hill of the Hawk" and the Army training films with Apex Film Corporation? A. That is right.

Q. Were those the only two?

A. Let's see. I have to think for a minute. There was "Hill of the Hawk," Ambassador Pictures; the Army training pictures. Right now I believe that is it.

Q. And in connection with all of those transactions, you were acting as the president of Producers' Finance Corporation? [149]

A. That is correct.

Q. Now, this Monogram picture situation that you testified with reference to, my notes show that you testified that was around the end of 1946 and some time early in 1947. A. That is correct.

Q. That was the situation in which you explored for the purpose of trying to invest a sum of money but the deal fell through, is that correct?

A. That is correct.

Mr. Gillard: Would this be a convenient time to take a recess, if the Court please?

The Court: I would like to run to a quarter past 4:00, if we could.

Q. (By Mr. Gillard): I believe that there was a transaction that you testified to which was entered into on the same date that the Articles of Copartnership were amended. That was another partnership with about 15 people.

A. Yes, 15 or 25. That was the Producers' Syn-

(Testimony of Maurice P. Koch.)

dicate back in 1944. I promoted $15,000.00 on that deal.

Mr. Fink: The agreement is in evidence. I think it is Exhibit 3, isn't it?

Mr. Gillard: Oh, yes, Exhibit 3 in evidence, an agreement of the Koch partnership dated the 23rd of October, 1944, between Dave Sebastian and about 13 or 14 other people.

Q. In that connection, Mr. Koch, you and the other persons [150] named in that agreement deposited the amount of money specified for each person with Mr. Grupp, did you?

A. That's correct.

Q. And the purpose of this agreement was that Mr. Sebastian was named the general manager of the partnership.

A. That is 1944. The agreement speaks for itself.

Q. Do you recall that he was the manager?

A. He had a lot to do with it, but I can't remember the exact title that was in there.

Q. The purpose of it was to have him explore a Sid Broad production, is that correct?

A. That is right.

Q. After exploring that for a few months, he determined no agreement could be reached with reference to that production, is that correct?

A. I went down to Los Angeles on that several times and I did a lot of exploring on that thing myself. It looked like we couldn't tie the ownership of the Mark Twain series down. One relative

(Testimony of Maurice P. Koch.)

had one, somebody else had another, and we were afriad of being sued after we made a picture by somebody who might have held title to that picture, and Sid Broad himself could not tie the title down. And we worked on that for months and months trying to tie the titles down, but we couldn't have done it. If we could have done it, we could have made the picture, the series, and so we gave everybody [151] their money back and we paid our own expenses on the deal. Everybody got 100 cents on the dollar back, but I promoted all the money for that picture.

Q. As a matter of fact, what happened was that Mr. Sebastian was charged with the responsibility of determining the advisability of investing this fund, was he not?

A. Well, I don't remember, but the way it turned out, I suggested that everybody get their money back. I can't remember the details in that deal. It was quite some time ago.

Q. I will refer you to Exhibit A for identification, Mr. Koch, and ask you to read that pragarpah there with reference to the partnership.

A. Yes, that is in line with what I told you, only it says, "Mr. Sebastian reported to Mr. Grupp and me that he could not get the titles to the pictures."

Q. Let me read from this and ask you a question, Mr. Koch. A. All right, sir.

Q. "Between the date of October 23, 1944, and January 18, 1945, the said David Sebastian periodically reported progress on his attempts to secure a satisfactory arrangement with regard to the Sid

(Testimony of Maurice P. Koch.)

Broad production to Maurice P. Koch or his attorney, Morris M. Grupp, and thereafter, some time during the middle of January, 1945, David Sebastian reported to Morris Grupp that he could not meet the conditions outlined by Maurice P. Koch to the investors in the Producers' Syndicate relative to the Sid Broad [152] productions and in line therewith on January 18, 1945, Morris M. Grupp as trustee returned the money to the investors." Is that correct? A. That is right.

Q. So that this money that was put up was put up by a trustee of your selection, Morris M. Grupp, with instructions to hold it pending further determination of what should be done with it, is that correct?

A. No, not exactly. It doesn't work that way. I mean, if Morris Grupp decided to make apple carts out of the $50,000.00, I think I would object strenuously to that.

Q. I do not believe that was my question, sir. I will withdraw that question. The contract speaks for itself. In any event, your money was put up by you in trust with Morris M. Grupp, the production fell through, and the money was returned to you, is that correct? A. That is right?

Mr. Gillard: Except for a few tag ends, if the Court please, I think I am finished.

The Court: We will take a recess until 10:00 o'clock tomorrow morning. Remember the admonition heretofore given you. [153]

Wednesday, November 28, 1956—10:00 A.M.

MAURICE P. KOCH

a plaintiff herein, being previously sworn, resumed the stand and testified further as follows:

Cross-Examination
(Resumed)

By Mr. Gillard:

Q. Mr. Koch, in the production of the moving picture "Copacabana," who was the producer?

A. The producer was Sam Coslow.

Q. What are the functions of a producer?

A. The function of a producer is to see that the entire picture is carried out, all the functions of the entire picture is carried out, to watch the budget, watch the costs, and keep a good eye on the director.

Q. He is, in effect, the over-all business manager of the picture? A. No, sir.

Q. Who occupies that function?

A. The executive. There is an executive producer.

Q. An executive producer? A. Yes, sir.

Q. He is the business manager of the affair, is he? A. Yes, sir.

Q. Well, the functions that you have described for the producer, like watching the budget, watching costs, and so on—— [154]

A. And watching the direction of the picture, the production of the picture.

Q. What would the associate producer do?

A. The associate producer would assist the pro-

(Testimony of Maurice P. Koch.)

ducer. In other words, the producer would be the manager of the picture and he would manage the picture, and the associate producer would assist him.

Q. Who was the director of the picture?

A. Al Green.

Q. What were the functions of the director?

A. Al Green, the director, would sit on every set and direct the actors that were at the camera, in front of the camera. He would take the picture, scene by scene, and try to explain and tell the actors exactly what they had to do at each scene.

Q. What other technical staff is there employed in the making of the picture? First, just by titles, Mr. Koch.

A. Well, they have writers, they have heads of costumes, they have heads of sets, they have a good cost accounting staff, they have got—well, they've got a lot of help all over the place, assistants—under the assistant producer.

Q. And that would include a regular force for the dance routines?

A. That is right. They would have teachers there to teach the girls how to dance. They would have dance instructors. They would have make-up artists there, head make-up artists [155] that were very big people.

Q. And property men?

A. Property men, yes, sir. They would have juicers there to take care of the electrical works, people that move things around.

(Testimony of Maurice P. Koch.)

Q. After the filming, they have people especially trained for the purpose of cutting and assembling the film?

A. That is right, they have filming editors and cutters. That is in the laboratory department.

Q. During the course of the transactions that you described to the jury with reference to these various productions, you considered your business was financing, didn't you, Mr. Koch?

A. My business was financing, but I was very much interested in the production of the picture because I had quite a bit of money in there.

Q. In connection with Producers' Finance Corporation, you referred to some dealings you had with Apex Films and some Army training films, is that correct? A. That is right, sir.

Q. The contract for the making of those films was between the Army and Apex Films Corporation, was it not, Mr. Koch? A. That is right, sir.

Q. Did you have any interest in Apex Films Corporation?

A. No, I had no interest in Apex Film Corporation outside of financing them on these [156] pictures.

Mr. Gillard: May this letter dated January 29, 1948, be marked as defendant's next in order?

The Court: In evidence? Is it being offered?

Mr. Gillard: By stipulation it may go into evidence.

The Court: Exhibit H.

(Testimony of Maurice P. Koch.)

(The document referred to was thereupon received in evidence and marked Defendant's Exhibit H.)

Q. (By Mr. Gillard): I will hand you Exhibit H, Mr. Koch. This is a letter, is it not, sir, from you, dated January 29, 1948, that is, from Producers' Finance Corporation, by M. P. Koch, Director, to Mr. Jack Chertok, setting forth in a preliminary form the basis of your understanding of advancing funds to the Apex Corporation?

A. That is right, sir.

Q. And the letter recites that Apex had these preliminary arrangements with the Army and was going to produce these films for the Army?

A. That is right.

Q. In that connection, then, the money that you testified about yesterday, this money from Pacific National Bank that you assisted in procuring, that million dollars of financing or thereabouts——

A. Yes, sir.

Q. ——that money went to Apex Film Corporation?

A. That money went direct to Apex Film Corporation, yes, sir. [157]

Q. And you were interested in arranging that that money was advanced by the Pacific National Bank to Apex so that your loan could be to Apex and you could help to make a profit upon that, is that so?

(Testimony of Maurice P. Koch.)

A. That is right. I promoted the loan with Pacific National Bank.

Q. The details of the loan were finally worked out, I presume, between Apex and Pacific National Bank? A. That is correct.

Q. The Pacific National Bank was interested in the credit standing of Apex Film Corporation, not in Producers' Finance Corporation?

A. Pacific National Bank was naturally interested in knowing all about Apex Film Corporation, and Jack Chertok—if I had not brought Mr. Chertok or Apex Film into our bank and he went in there cold, he would never have gotten the money.

Q. That may be, sir, but you were no part of the final loan transaction itself, were you?

A. No, not of the loan of the Pacific National Bank, not the loan that they made to Apex Film. Might I add that all of these things were predicated upon them getting the money for the picture and a loan being made.

Q. During the years 1946 and 1947 was any money loaned or invested by H. Koch & Sons, with the exception of money put into [158] "Copacabana"? A. 1946 and 1947?

Q. Yes, sir.

A. Well, I think the ledger sheet will show for itself. We bought stock and loaned money to Producers' Finance Company, but I haven't got the dates clear in my mind.

Q. That was in 1948, Mr. Koch?

(Testimony of Maurice P. Koch.)

A. It was either 1947 or 1948. I think the account 40 will show that, our ledger sheet.

Q. With reference to the money advanced by Producers' Finance Corporation, do you have that check for $8,000.00 that you referred to yesterday?

A. Yes, sir, I believe we have.

Mr. Gillard: Do you have that check?

Mr. Fink: I showed it to you yesterday.

Mr. Gillard: As defendant's next in order, I will offer the check of Producers' Finance Corporation by Maurice P. Koch, President, dated July 8, 1948, in the sum of $8,000.00 made payable to Max Fink.

(The document referred to was thereupon received in evidence and marked Defendant's Exhibit I.)

Q. (By Mr. Gillard): I will hand you Exhibit I, Mr. Koch, and also Plaintiffs' Exhibit 34. Is Exhibit I the check that was referred to and mailed to Mr. Fink in connection with Exhibit No. 34?

A. Yes, sir. [159]

Q. Of the total amount of money that was spent for the purchase of "The Hill of the Hawk" and for your stock in Ambassador Pictures Corporation, that was a total of $25,000.00, is that so, sir?

A. A total of $25,000.00 was spent for "Hill of the Hawk."

Q. $17,000.00 of that was your money which went into Ambassador Pictures Corporation and from there was used by that corporation to buy the book, is that so?

(Testimony of Maurice P. Koch.)

A. $7,000.00 was paid for the stock, and also that $7,000.00 was used by the corporation for the first down payment of "Hill of the Hawk," and subsequent to that the other $18,000.00 was loaned to Ambassador Pictures to buy "Hill of the Hawk."

Q. That $25,000.00 was all subsequently returned, was it, Mr. Koch? A. That is right.

Q. The $8,000.00 represented by this check, Exhibit I, the last one just shown to you, was returned to Producers' Finance Corporation, is that correct?

A. That is right.

Q. The other $17,000.00 was repaid to you personally, was it? A. That is right, sir.

Q. And that did not go back to H. Koch & Sons or through its books? A. That is right.

Q. During the period 1946 and 1947 was any picture produced [160] by virtue of any financing activities that you have testified to with the exception of "Copacabana"?

A. 1946 and 1947? No. We worked on a lot of pictures but they were not completed, produced.

Q. Mr. Koch, did you ever make any demand upon Mr. Sebastian for the return of the $17,500.00 advanced to him?

A. No, sir, there was no need of that.

Q. Did you ever make any demand for its return? A. No, sir. May I explain that?

Mr. Gillard: I think your counsel will take care of that. Thank you, Mr. Koch.

(Testimony of Maurice P. Koch.)

Redirect Examination

By Mr. Fink:

Q. Mr. Koch, I have some questions, too, if you don't mind. You just mentioned that you wanted to explain why you had not made a demand upon Mr. Sebastian for $17,500.00. Will you explain that to us, Mr. Koch?

A. Yes, sir. That money was advanced, that $17,000.00 was advanced to Mr. Sebastian. $10,000.00 of that went to Coslow and Hersh to buy stock in the Beacon Pictures Corporation. If the picture was made and completed and profits were forthcoming, then that money, when the company was dissolved, that money would be forthcoming back to me, plus the interest in the picture, and if the company did not make any money and they did not get any money back, that money would be a loss. I mean, there would be nothing coming back to me. That was [161] understood. The same thing applied with the $7,500.00 that Sebastian and Hersh received for expenses to get the picture rolling. In other words, this $17,500.00 was treated exactly the same as the $80,000.00 that we put into Beacon Pictures Corporation, and that is why we never asked for the money back, because there was nothing forthcoming from the picture.

Q. Mr. Koch, I will run through a few things that you testified about yesterday. Yesterday counsel asked you about gross sales, I believe, of H. Koch & Sons, the copartnership, and showed you Exhibit

(Testimony of Maurice P. Koch.)

C, a partnership return. I think you told him that gross sales in the year 1947, in accordance with that exhibit, were $555,532.46. What was the net income for the entire partnership that year?

A. The income was $19,223.18.

Q. That was divided between how many partners? A. Four partners.

Q. Around $4,780.00 each?

A. That is right.

Q. For the year?

A. That included our salaries, I believe.

Q. I note here in the year 1946——

The Court: What do you mean, it included your salaries? You mean your salaries were in addition to that, do you not?

A. I don't believe our salaries were in addition to that, [162] Your Honor.

Mr. Fink: It is a partnership.

The Court: I want to know what you mean by "included our salaries."

A. In a partnership our profit includes our salaries. In other words——

Q. I don't want any discussion about it. Did you get any salary in addition to the $19,000.00; yes or no? A. No, sir. No, sir.

Q. (By Mr. Fink): I will show you here on Schedule I of the same partnership return, Exhibit C, "H. M. Koch, $4,805.48."

A. That is part of the salary, that is right.

Q. W. E. Koch, also, $4,805.00? A. Yes.

(Testimony of Maurice P. Koch.)

Q. M. P. Koch, also, $4,805.00? A. Yes.

Q. Rebecca Koch, $4,805.00?

A. That is right.

Q. Plus the odd cents. I notice in 1946 that your tax return shows a net income of $115,000.00. Will you tell me, Mr. Koch, was the luggage business that you were in at that time going downhill?

A. The luggage business in 1946 was better than it was in 1947.

Q. In 1947 you made about $4,805.00 apiece. What happened [163] in 1948?

A. In 1948 it was worse than 1947.

Mr. Gillard: If the Court please, I am going to object to this line of questioning, not because I want to keep it from the jury, but because I do not think it is relevant to the issues in the case. The exhibits, of course, are not limited in purpose. I put them in to show the gross activity of Mr. Koch.

The Court: There is no question before the Court. The answer is in. Proceed.

Q. (By Mr. Fink): Mr. Koch, at the end of 1947 what was the cash position of H. Koch & Sons, a partnership, on December 31, or thereabouts, of 1947?

A. We had practically nothing in the bank. I believe we owed money.

Q. Did you intend during the years 1946 and 1947 to get into and be a part of the motion picture business?

Mr. Gillard: I object to that as incompetent, irrelevant and immaterial.

(Testimony of Maurice P. Koch.)

The Court: I will permit the answer "yes" or "no."

The Witness: Yes.

Q. (By Mr. Fink): What was your reason for that?

A. Well, I was on the War Production Board during the war. I made four or five trips to Washington every year.

The Court: That is going a little far afield, counsel. [164]

The Witness: I want to explain this situation of the business.

The Court: I do not want to hear a long story of things that are not pertinent to this inquiry, please.

Q. (By Mr. Fink): What was your reason for becoming active in this motion picture finance business?

Mr. Gillard: I object to that as incompetent, irrelevant and immaterial.

The Court: I will permit him briefly to give an answer.

The Witness: Well, I had every reason to believe that with the number of manufacturers, the increased number of manufacturers going into the luggage business that the supply was going to overwhelm the demand, and we had to get into something else to make money or we were going to be out of luck.

Q. (By Mr. Fink): Did you eventually go out of the motion picture finance business?

(Testimony of Maurice P. Koch.)

A. Yes, sir.

Q. When? A. Well, in——

Mr. Gillard: I object to that, if your Honor please, as incompetent, irrelevant and immaterial. The issues here are 1946 and 1947. We haven't engaged in transactions up to the present time.

Mr. Fink: Counsel asked the witness yesterday about [165] selling out to Jack Chertok, your Honor, which happened in 1949, and I thought we should establish just when he discontinued——

The Court: I think it calls for a conclusion and the objection may be sustained.

Q. (By Mr. Fink): Mr. Koch, counsel asked you yesterday about your activities in selling luggage in 1946, and I think you told counsel that you were selling luggage in 12 Western States. How much of your time was devoted to selling in 1946?

A. In 1946 everything was on allocation.

Q. What do you mean by that?

A. Well, luggage was practically impossible to be obtained. The war was over, and we allocated luggage to all our customers. In other words, we gave them a quota and shipped them that quota every month. Never called on hardly anybody.

Q. In 1947 I believe you told counsel you engaged agents to sell on commission?

A. That is right.

Q. Yesterday counsel inquired of you with regard to a law suit, a judgment against Beacon that was filed in the Beacon Pictures Corporation, a

(Testimony of Maurice P. Koch.)

bankruptcy proceeding. He read to you only four lines on page 38 of your deposition. Starting at page 38, line 20, to and including line 24:

"Q. Mr. Koch, this suit was—the basis of this suit was two promissory notes signed by Beacon Pictures [166] Corporation, each in your favor, one for $50,000.00 and one for $30,000.00, wasn't it?

"A. That is correct."

Now, Mr. Koch, I want to read to you the very next five lines of your deposition:

"Q. And those two notes were the basis of the action filed against Beacon Pictures Corporation, isn't that right?

"A. Well, I think my attorney can tell you more about that than I can. He filed that suit. I turned the whole thing over to him and walked away, and that is the truth."

Was that your testimony?

A. Yes, sir.

Q. Did you at any time attempt to direct your attorneys as to what legal theories should be pursued in this situation? A. No, sir.

Q. By the way, you mentioned that you sold out Ambasador Pictures and "Hill of the Hawk" to Jack Chertok. Do you know whether or not he has ever produced or ever will produce the feature picture called "Hill of the Hawk"?

A. I believe he is working on it right now.

Q. I think you told us that you had your attorney, Mr. Grupp, in San Francisco incorporate Producers' Finance Corporation?

(Testimony of Maurice P. Koch.)

A. That is right.

Q. And the incorporators of that were yourself, Mr. Grupp [167] and Mr. Grupp's secretary?

A. That is right.

Q. This was done in 1947, wasn't it?

A. 1947, yes, sir.

Q. What was the purpose of forming this corporation?

A. This corporation was formed to finance motion pictures.

Q. What do you mean by financing?

A. To advance the money for the pre-production of motion pictures, with participation in the motion pictures.

Q. Did you intend to obtain outside capital through this corporation? A. Yes, sir.

Q. Did you obtain outside capital through this corporation? A. Yes, sir.

Q. When I say "outside," I mean outside the Koch family.

A. That is right, sir.

Q. Did you ever receive any salary from Producers' Finance Corporation? A. No, sir.

Q. Did you ever receive any salary from Apex Films or Ambassador Productions or Beacon Pictures Corporation or any of the other corporations that have been mentioned in this case?

A. No direct salaries.

Q. And in speaking about your past experience and knowledge [168] of the picture business, among

Testimony of Maurice P. Koch.)

ther things, Mr. Koch, yesterday you mentioned our father-in-law. You did not tell us, I don't believe, what his relationship was to that. Was your father-in-law in the picture business?

A. Yes, sir, he was one of the big producers in his day.

Q. What was his name?

A. Arthur Harry Sebastian.

Q. What was the nature of the business he was in?

A. He was a producer and actually produced many pictures.

Q. So far as other members and relatives in your family are concerned, were other men in the theatre and the theatrical business?

A. Yes, sir.

Q. Were any of them, for example, in the theatre business? A. Yes, sir.

Q. To what extent?

Mr. Gillard: I will object to that as incompetent, irrelevant and immaterial.

The Court: Sustained.

Q. (By Mr. Fink): In your earlier years, Mr. Koch, did you have the opportunity of learning from members of your family facts concerning the motion picture industry and the motion picture business?

Mr. Gillard: I object to that as calling for the opinion and conclusion of the witness. [169]

The Court: Sustained.

Q. (By Mr. Fink): I think you told counsel

(Testimony of Maurice P. Koch.)

yesterday that you never made a picture yourself and you do not know anyone who ever has. What did you mean by that?

A. There is no one man who can make a picture. It takes an organization.

Q. Mr. Koch, I think you told us that United Artists Picture Corporation sells pictures world-wide, and that the picture "Copacabana" was entrusted to them for sale throughout the world, is that correct? A. That is right.

Q. After you learned from the sales of "Copacabana," United Artists, that the picture was a total loss so far as your money was concerned in the year 1947, did you file an amended partnership return for the year 1947? A. I believe we did.

Q. I will show you here what is called "Amended Return, United States Partnership Return of Income, 1947." A. Yes.

Q. The caption is, "Amended Return." On the last page appears a signature.

A. That is right.

Q. Is that your signature? A. Yes, sir.

Q. Is this the amended return that you [170] filed? A. It evidently is, yes.

Q. For H. Koch & Sons? A. Yes, sir.

Q. It shows a net loss for the year of $55,776.82, is that correct? A. That is correct.

Q. For the partnership business.

Mr. Fink: May I offer this as plaintiffs' Exhibit next in order?

Mr. Gillard: If the Court please, this is, I be-

(Testimony of Maurice P. Koch.)

ieve, rendered irrelevant by the pleadings. The answer of the Government admits that a loss of $75,000.00 was incurred and a claim was made for that by the partnership. There is no issue in the case with respect to this matter.

The Court: The objection is overruled. It may be admitted and marked Exhibit 35.

(The document referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 35.)

Mr. Fink: We have no further questions at this time, your Honor.

Mr. Gillard: No further questions.

The Court: You may step down. Call your next witness, please.

Mr. Fink: We are calling a witness from the witness room, your Honor. Your Honor, when this action was first called on [171] the Master Calendar, Mr. Grupp was permitted to withdraw as counsel in the case due to the fact that he was going to be a witness, and I do not believe that record has come through to your Honor as yet. He is not an attorney in the case at this time.

The Court: Call your witness, Mr. Fink, please.

MORRIS M. GRUPP

called as a witness on behalf of the plaintiffs, being first duly sworn, testified as follows:

Direct Examination

By Mr. Fink:

Q. What is your name, please?

A. Morris M. Grupp, 350 Mills Tower, San Francisco.

Q. What is your business?

A. I am an attorney at law.

Q. How long have you practiced in the State of California? A. Since 1927.

Q. Do you know the Koch family?

A. I do.

Q. How long have you known them?

A. I have known the Koch family since approximately 1920.

Q. Thirty-six years? A. That is correct.

Q. Have you been the counsel for H. Koch & Sons, a copartnership?

A. The present partnership, yes. [172]

Q. I show you here Exhibit 1, a copartnership agreement between Rebecca Koch, Maurice P. Koch, Harold M. Koch, and William L. Koch, and ask you if you drafted that document.

A. Yes, sir, I drafted that document.

Q. I will show you an amendment which purports to be executed on the 23rd of October, 1944, by those same people, amending the partnership agreement, originally this Exhibit 1. Did you draft this agreement? A. I did.

(Testimony of Morris M. Grupp.)

Q. Do you recall the circumstances leading up to the amending of the partnership agreement?

A. Yes, to some extent, I imagine.

Q. What were those circumstances insofar as leading up to this amendment, pursuant to which this amendment was prepared? I will withdraw the question. What occasioned the drafting of this amendment to the original agreement?

The Court: I take it that that is a conclusion. The agreement was signed. There is no question about it. It is a completed fact. How can this witness testify to conclusions as to reasons why it should be done?

Mr. Fink: I suppose it will speak for itself, your Honor.

Q. Mr. Grupp, after the 23rd day of October, 1944, did you have any dealings with the Koch family with regard to the motion picture finance business? A. Yes. [173]

Q. I will show you here an agreement of partnership which bears date of the 23rd day of October, 1944, and which bears a number of signatures, including one that purports to be your signature. This is your signature, is it?

A. That is correct, that is my signature.

Q. Did you prepare this agreement?

A. I prepared that agreement.

Q. Did you act under this agreement?

A. I did.

Q. Mr. Grupp, we are concerned here with certain transactions that led into the year 1947. Do you

(Testimony of Morris M. Grupp.)

recall transactions involving H. Koch & Sons and Beacon Pictures Corporation and a picture, "Copacabana"?

A. Yes, that was one of the later—not one of the later ones, but that was some time after the original transaction that was set forth in the exihibit that you just showed to me.

Q. In between the date of October 23, 1944, and the time that this Beacon Pictures Corporation—"Copacabana" matter came up, there were other considerations, were there not, which you investigated? A. That is correct.

Q. Turning to this matter of Beacon Pictures Corporation and a picture called "Capacabana," do you recall whether or not you were consulted in connection with that matter?

A. Yes, I was consulted by the Koch family. I had various [174] conferences.

Q. Approximately when were you first consulted and did you first confer with regard to that matter?

A. As to the date, I would say approximately the middle of 1946 or somewhere along in there.

Q. Let us put it this way: Do you know whether or not a picture called "Copacabana" was made?

A. Yes.

Q. You saw the picture?

A. Yes, I did. I saw it being made.

Q. Were your conferences and consultations prior to the making of that film?

A. I would say about six months before that,

(Testimony of Morris M. Grupp.)

or four months, five months, somewhere along in there.

Q. In any event, we are talking about a situation that occurred approximately ten years ago?

A. Yes.

Q. We do not expect you to be exactly accurate on it. At that time whom did you represent?

A. I represented the copartners in the Koch enterprise and the Koch family.

Q. That was then H. Koch & Sons?

A. That is correct.

Q. The copartnership with which we are concerned here? A. That is right. [175]

Q. Did you meet a man named David Hersh?

A. Yes, Mr. Hersh came to San Francisco when I originally met him in my office. We had an evening conference, as I recall it, which lasted all evening.

Q. Did you discuss the matter of this proposed arrangement with Mr. Hersh at that time?

A. That is right. That was the purpose of his visit here.

Q. Did you perform that activity as counsel for H. Koch & Sons? A. Yes.

Q. Did you talk to one David Sebastian at or about the same time?

A. Yes, I think David Sebastian brought Mr. Hersh to San Francisco. I know they came together. In the conference that we had, both Mr. Hersh and Mr. Sebastian were present, I think Mr. Maurice Koch was present. I do not recall any of the other Koch family at that meeting.

(Testimony of Morris M. Grupp.)

Q. Do you remember that H. Koch & Sons put some money up for an interest in the film "Copacabana"? A. Yes.

Q. Prior to the time this money was advanced, did you discuss matters relative to that transaction with members of the family or partnership other than Maurice Koch?

A. Yes—well, all the members of the partnership, as I recall it, were at one time or another in one or two conferences [176] together.

Q. Following that time, Mr. Grupp, did you have occasion to be consulted in connection with other motion picture transactions by H. Koch & Sons?

A. Yes, there were quite a number of them.

Q. I will call your attention particularly to the formation of a company called Producers' Finance Corporation.

A. Yes, that was a corporation as distinguished from the Producers' Syndicate. I think the original was Producers' Syndicate. If that is the corporation that was organized, then that is the one I think I organized.

Q. I will show you here Exhibit 25, which purports to be a certified copy of Articles of Incorporation of the Producers' Finance Corporation.

A. Yes.

Q. It purports to have been filed in the office of the Secretary of State on the 20th day of October, 1947? A. That is right.

Q. I will show you the names of the incorpora-

Testimony of Morris M. Grupp.)

ors, which appear to be Morris Grupp, Maurice P. Koch, and Bernice E. Phillips.

A. That is right. Bernice E. Phillips was my ecretary at the time.

Q. Did you and your secretary named here at ll times act on behalf of H. Koch & Sons in organizing this corporation? [177]

A. That is right.

Q. At the time that this corporation was organzed, I take it it did not have capital at that time, is hat correct?

A. At the time it was organized? No, excepting hat the Kochs advanced and paid all the costs of he incorporation.

The Court: By incorporation you mean the filing f the Articles in Sacramento?

A. The filing of the Articles in Sacramento and he subsequent applications that were filed for the ssuance of stock.

Q. (By Mr. Fink): Did you obtain a permit to ssue stock in that company from the Department f Investments of the State of California?

A. I did.

Q. When did you obtain such a permit?

A. The permit was issued on February 26, 1948.

Q. The corporation we noted was incorporated n October 20, 1947.

A. Yes. Then an application follows, as a rule, hich it takes some time to act on.

Q. In the several months that intervened beween the incorporation of the company and the

(Testimony of Morris M. Grupp.)

obtaining of the stock permit, were any persons firms or corporations to your knowledge interested in Producers' Finance Corporation other than H Koch & Sons?

A. Not during that interval of time. During tha interval [178] of time it was entirely their corpora tion.

The Court: So that the jury may understand Mr. Grupp, what organizing a corporation means that is done by an attorney preparing a paper which is called the Articles of Incorporation. The parties or the people in your office sign it, and it is mailed to Sacramento.

The Witness: That is correct.

The Court: That is called forming a corporation

The Witness: That is the forming of the actual corporation.

The Court: Thereafter, if there is any money to be invested, an application must be made to the Corporation Commissioner, and he thereafter issues a permit that the stock may be issued upon certain conditions.

The Witness: That is right, and then if I might follow it from there, as a rule when the corporation gets into action or becomes activated, as a rule the incorporators, if their attorney is secretary, he will step out of the picture and the new directors are voted in and they proceed with their business.

The Court: Until the permit to issue stock is made and the stock is issued, all that is done is the filing of the Articles of Incorporation.

Testimony of Morris M. Grupp.)

The Witness: That is correct.

Mr. Fink: May I offer this stock permit of Producers' [179] Finance Corporation as plaintiffs' next in order, your Honor?

The Court: Exhibit 36.

(The document referred to was thereupon received in evidence and marked Plaintiffs' Exhibit 36.)

Q. (By Mr. Fink): Mr. Grupp, do you know a Mr. Jack Chertok? A. Yes.

Q. When did you meet him?

A. I would imagine it was either in August or September of 1947. It preceded the date of the organization of Producers' Finance.

Q. Did you meet him in a professional capacity, that is, in pursuit of your profession as an attorney?

A. Yes.

Q. For whom were you acting at the time?

A. For the Koch family and partnership.

Q. Did you have occasion to discuss financial matters pertaining to the picture business with him?

A. I did.

Q. Where did you meet him, by the way?

A. I met him at his office in Los Angeles.

Q. Did you go there to see him?

A. Yes, that was the only purpose of that trip.

Q. Did you have more than one conversation with Mr. Chertok?

A. I cannot be certain whether the second conversation I had in San Francisco was with Mr.

(Testimony of Morris M. Grupp.)

Chertok or one of the members [180] of his staf with reference to a loan that was made with Pacifi National Bank. I tried to recollect that, Mr. Fink I am not certain Mr. Chertok came to San Fran cisco at that time. My memory was—my best mem ory would be that he did, and that I met him twice and that I met another member of his staff once in San Francisco. Once I know I met Mr. Chertok in Los Angeles.

Q. Did you have any financial dealings with Mr Chertok on behalf of H. Koch & Sons?

A. Yes.

Q. What was the nature of those dealings?

A. Well, it started with this conversation in Los Angeles, where Mr. Chertok explained to me that there was a vital need in the motion picture business of what they called funds, pre-production funds, which he explained were the funds which were necessary to gather a picture to the point where the camera starts to turn, and that that was the most difficult money to obtain, particularly in instances where there were no big stars, big names connected with the picture, and that there was a crying need for any organization that could supply that type of funds, and that he was in that position and would like to get some pre-production money. He gave us his background. I remember he had been with one of the picture studios—I do not know whether it was MGM or one of them—for many, many years, and he himself would be vitally interested in such a [181] group, if such a group were

(Testimony of Morris M. Grupp.)

put together, in joining that group, even to the extent of putting in a certain percentage of his own profits in such an organization upon which he or other producers could later draw.

Then subsequently there were some arrangements made through the bank which the Kochs banked at, the Pacific National Bank, and conferences held there with reference to backing some pictures or financing some pictures which I think Mr. Chertok was making for one of the Departments of the United States Government. I don't remember whether it was the Army or the Navy. But arrangements on that were made in 1947, as I remember it, and then it was quite awhile—I mean, the bank had to commit themselves before Chertok could go ahead and bind himself to the contracts with the Government, which I understand was ultimately done and carried through. Then there were moneys advanced to Mr. Chertok by the corporation at a later date.

Q. Do you know whether or not the Signal Corps and Army and Air Corps training films were produced? A. Yes.

Q. Some time prior to the production of those films I assume arrangements were made with the Government for the production of them?

A. Yes.

Q. As I think you told us, your arrangements for financing [182] and banking, so far as the production of those films were concerned, were made prior to that time?

(Testimony of Morris M. Grupp.)

A. Yes. The bank—first, there was quite a lot of money involved there, as I remember it, and the bank was vitally interested in the background of Mr. Chertok. They discussed the matter, Mr. Lee Master, I think it was, of the bank, with Mr. Koch on several occasions. I was with them on one or two occasions; I gave him the answer to some of the questions as I understood them, when I had conferences with Mr. Chertok and then the bank, as I recall, finally committed themselves to this financing after this investigation. Then he completed his contracts with the Government.

Q. Could you define this a little more closely, just when these discussions with Mr. Chertok were had and also approximately when it was that the bank as well as the Koch family and the corporation committed the financing necessary to make these films?

Mr. Gillard: I object to that as compound and complex, if the Court please.

Mr. Fink: I merely wanted the time set.

The Court: Does the witness understand the question?

The Witness: I think I understand the question. As I recall, the conference with Mr. Chertok preceded the filing of the corporation papers in Producers' Finance, and Producers' Finance Corporation was organized as a means of carrying into [183] practice such arrangement as could be made with Mr. Chertok.

Q. (By Mr. Fink): I want to call your atten-

(Testimony of Morris M. Grupp.)

tion to the fact that Exhibit 25, the Articles of Incorporation of Producers' Finance Corporation, indicates that they were filed with the office of the Secretary of State of California October 20, 1947.

A. I would say my memory would be it would be between 60 days and 90 days before that.

Q. In any event, these arrangements for financing with the bank, as well as with the Koch family, were made some time, you say, prior to this October 20, 1947, date?

A. Yes. In other words, the first conference with Chertok in Los Angeles, I would say, preceded that by 60 or 90 days. Then after that the question of the Signal Corps pictures, which I now recall that you mention it, came into the discussion.

Q. Did these discussions occur in the year 1947?

A. Yes.

Q. Were these financial commitments made with regard to financing these training films made in 1947?

A. My memory is the bank concluded—I think it took about 90 days or something like that, or more —90 to 120 days to consummate the contracts with the Government after the bank had committed themselves to the financing.

Q. Prior to October 23, 1944, what had been the business of H. Koch & Sons? What business were they in? [184]

Mr. Gillard: I object to that as calling for the opinion and conclusion of the witness.

The Court: I think I will permit him to answer.

(Testimony of Morris M. Grupp.)

The Witness: H. Koch & Sons were manufacturing luggage of various types prior to 1944 and as long as I remember them, the family.

Q. (By Mr. Fink): After the amendment, after October 23, 1944, what was the business of H. Koch & Sons?

The Court: I think that calls for a conclusion. I think this witness is not able to testify to that.

Q. (By Mr. Fink): Were all of the activities which you devoted to this motion picture financing, the time that you spent professionally, was all of this time and all this activity conducted by you as counsel for H. Koch & Sons?

A. Yes, at all times. I do not think that any of the costs, any of the costs that were expended there were advanced by either of the corporations or by any other person other than the Kochs.

Mr. Fink: No further questions.

The Court: We will take a recess at this time.

(Recess.)

Mr. Fink: During the recess my attention was called to an oversight. May I reopen?

The Court: All right.

Q. (By Mr. Fink): Mr. Grupp, during the year 1947, the year [185] in question, were you in touch with Mr. Maurice P. Koch in the course of that year? A. Yes.

Q. To what extent? Will you describe your contact with him? A. During the year 1947——

Mr. Gillard: I will object to the question as

(Testimony of Morris M. Grupp.)

being too broad and general, and not being limited to the activities in connection with the issues in this case.

Mr. Fink: I will withdraw the question and reframe it.

Q. Mr. Grupp, during the year 1947, did you have occasion to discuss motion picture matters with Mr. Maurice P. Koch? A. Yes.

Q. Did you also during that year have occasion to discuss motion picture affairs with other members of the partnership of H. Koch & Sons?

A. Yes.

Q. Insofar as your discussions with Maurice P. Koch are concerned on motion picture matters, on approximately how many occasions during the year 1947, did you discuss such matters with him?

A. I would venture to say fully a hundred times between personal, telephone calls and conferences.

Q. Were those telephone calls local calls or long distance calls?

A. Many of the phone calls—I would venture to say half of [186] them—were from Los Angeles.

Q. Did these 100 times or so during that one single year, the calls and discussions you had, relate to the motion picture business?

A. Entirely to the motion picture business.

Q. Was it a rather constant activity or were there gaps in between?

A. It was almost constant, every two or three days, sometimes day after day, sometimes several times a day. It was a constant activity on that dur-

(Testimony of Morris M. Grupp.)

ing practically the whole year, as I recall, one thing or another.

Mr. Fink: That is all.

Cross-Examination

By Mr. Gillard:

Q. Mr. Grupp, do you have a day book showing your contacts with Mr. Koch?

A. I do not know whether I have a day book from that time past. If I do, it would be in the storage of the basement of the 417 Market Street building, where I have stored old records. I would venture to say, Mr. Gillard, that the day book would not show numerous phone calls which I received at my home, 12:00 o'clock midnight, 2:00 o'clock in the morning, at any time almost during a good portion of that year.

Q. Mr. Grupp, I gather the day book would show the conferences in your office that you had.

A. If conferences were scheduled, it would show that. [187]

Q. You did not consult that day book, I take it, prior to your testimony today?

A. No, I did not.

Q. When was the first time that you went to the bank with Mr. Koch with reference to the financing for Apex Films?

A. I would venture to say it was within 30 days or 60 days before that corporation, Producers' Finance, was formed. I think it was formed some time in the later part of October. It followed within

(Testimony of Morris M. Grupp.)

several weeks at least of my first visit to Mr. Chertok in Los Angeles.

Q. Do you know of your own knowledge that the bank advanced money in that connection to Apex Film Corporation?

A. Yes. You mention Apex. I think that was the name.

Q. The money was not advanced to Producers' Finance, was it?

A. No, it was advanced to whatever company Mr. Chertok was operating under at that time.

Q. Do you know when money was advanced by the bank?

A. No, I do not know when it was, as my memory serves me now. I mentioned before, after the bank committed itself to make these loans, Mr. Chertok proceeded to complete his contractual arrangements with the Signal Corps, I would imagine some 60, 90 or 120 days intervened. I would imagine they must have gotten the money early in 1948.

Q. Did the bank require that the Apex Corporation have on hand the pre-production money prior to its loan? [188]

A. I do not recall that. I didn't handle the bank papers for the Apex Company and I do not know what their requirements precedent to their making the loan was. There was some moneys I know that came to Apex from Producers' Finance, but just what that pertained to at that time I do not recall.

Q. Mr. Grupp, after all of your experience in the motion picture financing business, acting as the

(Testimony of Morris M. Grupp.)

attorney for the Koch family, wasn't it your experience that the primary financing money from banks was not put up until there was available and on hand the pre-production money?

A. That was so. Now, you say "with all my experience." I, unfortunately, had very little experience prior to this with reference to motion picture financing, and my experience came as a result of my conferences first with Mr. Hersh, who educated me along those lines, and then with Mr. Chertok, and then through Mr. Koch, who had some dealings down there with the bank and one of the finance companies in Los Angeles, about which he discussed with me.

Q. I will show you Exhibit H. Exhibit H, Mr. Grupp, is the letter from Producers' Finance Corporation signed by M. P. Koch and directed to Mr. Jack Chertok, in which he is discussing in a preliminary way their negotiations for the lending of money from Producers' Finance to Apex. You will notice by virtue of the terms of that document that no money has yet been advanced to Apex. Under those circumstances, and keeping [189] in mind that date of January 29, 1948, is your memory refreshed as to when money was advanced by Pacific National Bank to Apex?

A. No, this could not refresh my recollection. With reference to that transaction, Mr. Gillard, I tried to explain the bank's position was that they were relying upon Mr. Koch's investigation of this matter and the knowledge of Mr. Chertok and his

(Testimony of Morris M. Grupp.)

background. Before they were even considering the matter, they wanted to know from him primarily what that background was, and they were also inexperienced in the motion picture field.

Q. Would you mind trying to answer my question, Mr. Grupp? A. What is your question?

Q. My question was, does this refresh your recollection as to the date the bank advanced the money to Apex Films? A. No.

Q. Were you the legal counsel for Producers' Finance Corporation? A. Yes, sir.

Q. You were? A. Yes, sir.

Q. And from the date of its incorporation you were acting as legal counsel for Producers Finance Corporation?

A. When I say "legal counsel," I was here in San Francisco; Mr. Fink was in Los Angeles, and he may have acted when Mr. [190] Koch was down there with the same authority that I had here.

Q. I am talking about Producers Finance Corporation. A. Yes.

Q. You were the attorney for that corporation?

A. Yes.

Q. From the date of its incorporation on in connection with these affairs, you acted as counsel for Producers' Finance Corporation? A. Yes.

Mr. Gillard: Thank you, Mr. Grupp.

Mr. Fink: We have no questions.

The Court: Just a moment, Mr. Grupp. I wanted to ask you a question.

Q. In these conferences and advice that you had

(Testimony of Morris M. Grupp.)

during the year 1947 with Mr. Koch and with the persons whom you have mentioned, were you acting in your professional capacity as an attorney for H. Koch & Sons? A. Yes.

Q. Calling your attention to the exhibit in this case, Exhibit C, which is the 1947 income tax return of H. Koch & Sons under the heading of "Expenses, legal and auditing," $268.00, is that the amount of fee that you charged for your services during that year?

A. I did not charge one cent for services, your Honor, to the Koch family from 1932 until about three years ago—not [191] one cent was ever paid me as attorney's fees by the Koch family.

Q. Then you did not receive any part of that $268.00 in 1947?

A. It may have been costs, actual costs, or a portion of that may be actual costs I had advanced or that the Koch family paid me for filing fees, for documentation, and so forth, but as far as fees were concerned, there were no fees paid.

Mr. Fink: May I ask a question?

The Court: You may.

Redirect Examination

By Mr. Fink:

Q. How did it happen, Mr. Grupp, that you did not charge a fee for your legal services to the Koch family over those years in which you have described the numerous activities, particularly 1947?

A. I should figure it dates back to 1932, at a

(Testimony of Morris M. Grupp.)

time when I was very young in my practice. The Koch family, Mr. Koch was a very close friend of mine, my family's, and during the years of 1931 and 1932 Mrs. Grupp was quite ill, and during that time, and during a period of some 12 to 15 weeks that she was in the hospital, Mr. Koch advanced—I had on my desk a check every week for the time she was in the hospital for all the doctors', hospital bills, nurses' bills, which amounted to something over $12,000.00, which was thereafter repaid to him by bank loan. This was all voluntary on his part, and when [192] she got out of the hospital, he presented me with a 1930 Buick automobile, which he took back from one of his salesmen, and after that, very frankly, until long after his death, and until more recently when their plant was flourishing, and upon the insistence of the Kochs, I never rendered a bill for legal services to the family or any member of the family for anything I had done for them. I just could not do it.

Q. You say "after his death." You mean the father? A. That is correct.

(Witness excused.)

MARTIN EISENBERG

called as a witness on behalf of the plaintiffs, and being first duly sworn, testified as follows:

The Court: Will you state your name?

The Witness: My name is Martin Eisenberg.

Direct Examination

By Mr. Fink:

Q. Mr. Eisenberg, where do you live?

A. I live at 510 South Burnside Avenue, Los Angeles, California.

Q. What is your business or occupation?

A. I am a financial and production supervisor in the motion picture industry.

Q. Did you have any training for that particular calling? A. Yes, I do. [193]

Q. What was your training?

A. My training was the coast—costing of—by reason of an accounting background——

Q. You were an accountant at one time, were you? A. Yes, I was.

Q. That was many years ago?

A. Many years ago.

Q. Did you go into cost accounting work?

A. Yes, I did.

Q. In connection with the motion picture business, how long have you been identified with that industry? A. Since the fall of 1932.

Q. Some 24 years ago? A. 24 years ago.

Q. Has all your activity in that business been principally in Hollywood?

(Testimony of Martin Eisenberg.)

A. Principally in Hollywood.

Q. And has it been principally in connection with the production of films?

A. Always the production of motion picture films.

Q. Calling your attention to the year 1946, do you recall the making of a picture called "Copacabana"? A. Yes, sir.

Q. Prior to the actual principal photography of that picture, had you had any relationships with Bank of America? [194]

A. Yes, I had.

Q. What was the nature of that relationship?

A. I had served as controller by appointment and being approved by the Bank of America and other banks to serve in the capacity of controller of the motion picture producing companies.

Q. And have you followed that same type of activity over these years?

A. All during this period.

Q. By the way, you work, I take it, primarily in the so-called independent field?

A. Wholly.

Q. Can you describe for us what we generally refer to as independent productions, how they differ from so-called major studio productions?

A. An independent producing organization is formed by certain individuals for the purpose of producing one or more motion picture features or so-called B pictures for distribution through independent motion picture distribution agencies. That

(Testimony of Martin Eisenberg.)

is distinctive of the distribution as afforded by the major studios' own distribution setups.

Q. In the years 1946 and 1947 were you acquainted with an organization called the United Artists Corporation? A. Yes, I was.

Q. Did you have a constant course of dealings with that [195] organization during that period of time? A. I had, since 1932.

Q. Was United Artists Corporation a so-called distributor for so-called independents?

A. They were wholly.

Q. Did United Artists Corporation make their own pictures? A. No, sir.

Q. They distributed only independent films?

A. Only independent product.

Q. Did you have an acquaintanceship with a Mr. George Backnell? A. Very intimately.

Q. What was his business in 1946?

A. He was vice president in charge of the independent motion picture production on the West Coast.

Q. Were you in touch with him during the year 1946 and the years prior thereto and thereafter?

A. Almost daily.

Q. I will show you here Plaintiffs' Exhibit 5, which I believe is only in for identification up to this point, and ask you if you recognize the signature.

A. The top signature is George Backnell, vice president, and the second signature is Sam Coslow,

(Testimony of Martin Eisenberg.)

who is a producer of Beacon Pictures Corporation, "Copacabana."

Mr. Fink: Your Honor, I may be in error on this. I do [196] not know whether 5 is in evidence or just for identification so far.

The Court: It is only for identification.

Mr. Fink: May I offer it at this time?

Mr. Gillard: I do not think it has any bearing upon any of the issues in this case, if the Court please, a contract executed by parties that are independent to this transaction. For that reason I will object to it.

The Court: Can you show me a connection here, counsel?

Mr. Fink: I thought so, your Honor, but I will continue on with the witness, if I may, to have the record clear in that regard.

Q. Mr. Eisenberg, I will show you Exhibit 5 for identification, which purports to be the agreement between Sam Coslow and United Artists Corporation, and I will ask you if this is not the agreement under which the motion picture "Copacabana" was distributed. A. It is.

Mr. Fink: May we offer it again, your Honor?

The Court: Counsel, what is the connection of that with the parties to this litigation? It has been testified the picture "Copacabana" was made. How does this contract assist in any way in showing these issues?

Mr. Fink: It is part of the over-all picture, to show the contribution of each person toward the

(Testimony of Martin Eisenberg.)

entire pot that makes [197] an independent picture. This man contributed a release, somebody else contributed something else, and I think we might have it all brought to the attention of the Court.

The Court: At the moment I will sustain the objection. I will look at the document, however.

Mr. Fink: Shall I proceed, your Honor?

The Court: Surely.

Q. (By Mr. Fink): Mr. Eisenberg, did the Bank of America make a loan with regard to the picture "Copacabana"? A. Yes, they did.

Q. Do you recall approximately when the first funds from the Bank of America in connection with that loan were made available?

A. The first funds were toward the end of November or the early part of December. I do not recall exactly the week, but it was just one week apart, either the last week of November or the first week of December.

Q. 1946? A. 1946.

Q. Just prior to the release of those Bank of America funds, just prior to the release of that money, did you appear at the studio in connection with this film? A. Yes, I did.

Q. Did you remain there during the production and filming and the cutting of this picture? [198]

A. I did.

Q. Insofar as the relationship with the bank is concerned, the Bank of America, what was the nature of your duties?

A. I was the approved controller by the bank,

(Testimony of Martin Eisenberg.)

to be employed by Beacon Pictures Corporation, to see to it that the moneys contributed by the various money lenders would be properly disbursed in accordance with the provisions of the budget and the contractual obligations on which that budget was based.

Q. Approximately how long prior to the advance of the first bank money was it that you appeared on the scene of this picture?

A. I believe I came in there around November 18, 1946.

Q. Had this picture been in preparation for some time prior to November 18, 1946?

A. I understood that the picture had been in preparation beginning with April of 1946.

Mr. Gillard: I move that the answer go out as being obviously a hearsay statement.

The Witness: No, it was not a hearsay statement, sir. It was knowledge I acquired after I came on the scene and they were all part of the record.

The Court: I will permit it to remain. Let me ask you one question, counsel.

Do you contend that in Exhibit 5, which consists of something over 40 pages, that there is any reference to H. [199] Koch & Sons or to Maurice P. Koch, or to the obligations or duties that they had in connection with this?

Mr. Fink: No, your Honor.

The Court: Then the objection may be sustained.

(Testimony of Martin Eisenberg.)

Mr. Fink: Do you care to hear from counsel on the matter?

The Court: No, I just wanted to know if there was any connection. I looked through it. I could find no such reference, and if there is no such reference the objection may be sustained.

Q. (By Mr. Fink): Were facilities rented for the making of the picture "Copacabana"?

A. They were.

Q. Who were they rented from?

A. Goldwyn Studios.

Q. When you came to the studio after the months of preparation, and just prior to the advancement of the bank loans, did you meet Mr. Koch? A. Yes, I did.

Q. Maurice P. Koch, here in the courtroom?

A. The gentleman sitting right in front of me.

Q. Had you ever met him prior to that time?

A. No, sir.

Q. Did you meet him on the first day of your arrival? A. I did, sir.

Q. Did you see him thereafter? [200]

A. Time and again.

Q. During the course of the production?

A. Pre-production and during the production of the motion picture.

Q. During that period of time did you observe his activities?

A. Yes, I had occasion to observe them.

Q. What were his activities insofar as the picture "Copacabana" are concerned?

(Testimony of Martin Eisenberg.)

A. Well, his activities were in connection with having furnished the pre-production moneys, and guiding through some financial difficulties that had occurred which deferred the original starting date of the production, which had been some time in the early part of November, to the latter part of November, 1946.

Q. I take it difficulties of various types are not unusual in the motion picture business?

A. No, they are not. They are rather common.

Q. Was Mr. Koch at this studio and active in connection with this film for the period of time after you started your activities there?

A. Yes.

Mr. Gillard: I object to that as ambiguous.

The Court: You can ask him whether he was at the studio, and then go into what he was doing, if you want to.

Q. (By Mr. Fink): What did Mr. Koch do from the time he [201] first came there and you met him?

A. During that time and possibly for ten days thereafter Mr. Koch was engaged with the various contributors to the motion picture production in straightening out not alone the financial difficulties but in lending a hand and guiding the production about to be produced, the elements of some of the production activities.

Q. Could you give us an example in that respect?

A. Yes. There was—Mr. Koch, I recall, sug-

(Testimony of Martin Eisenberg.)

gested that there was altogether too many dance numbers to go into the filming or the production filming that might be unnecessary because of the length of the finished picture; that would be over-production. Then there were questions of wardrobing and many others of that nature which he helped to balance out with the rest of the interested parties in the production activities.

Q. Did these matters that he assisted in have relationship to the over-all cost and expenditures in the picture making?

A. They certainly had, because if they had not acted on his suggestions, the picture would have gone way, way over the budgetary cost.

Q. You say you met him the first day you came there and you saw him for approximately ten days thereafter. Now, after that time was he gone for awhile? A. Yes, he was. [202]

Q. Did you see him from time to time again after he left? A. Yes, I did.

Q. Were his activities of a similar nature throughout the filming of that picture?

A. The most difficult part was the time when I first met him after the production started, and they acted on his suggestions, and the production ran more or less smoothly.

Q. Who were the owners of this film "Copacabana"?

A. Well, the owner of the film was the Beacon Pictures Corporation.

(Testimony of Martin Eisenberg.)

Q. Did Mr. Koch have any interest in the filming? A. Yes, he did.

Q. Who were the stars of the film?

A. The stars of the film were Grouch Marx——

Q. May I stop you there? Did Groucho Marx own part of the film? A. Yes, he did.

Mr. Gillard: If your Honor please, I move to strike the last answer so I may make an objection to it, and then I object to the question on the ground it calls for the opinion and conclusion of the witness.

The Court: The answer may go out. Presently I think it does call for his conclusion.

Q. (By Mr. Fink): Do you know whether or not this film was owned by more than one [203] person?

Mr. Gillard: I object to that as calling for an opinion and conclusion of the witness.

The Court: If there is any document which shows the ownership of this film, and there is any question about it, I think the document would be the best evidence.

The Witness: I did——

The Court: Just a moment.

Mr. Fink: Your Honor, we have the document in evidence with regard to the Koch situation, but we certainly do not have the documents with regard to the other people, and I would like to go into somewhat the division of the ownership.

The Court: We are only interested here, counsel, with the activities of H. Koch & Sons, if any.

(Testimony of Martin Eisenberg.)

If you intend to prove any other ownership, I judge you should do it in the legal way, by such documents that there may be, if there are any.

Mr. Fink: Perhaps we can reach it in a different way, your Honor.

Q. Mr. Eisenberg, with how many feature motion pictures have you been associated over your years of experience?

A. Well, about 40 features, about 50 B's, and 330 one-half hour television shows.

Q. Have your activities in the so-called independent motion picture making been continuous throughout the years you have told us about? [204]

A. Yes, they have.

Q. Are you familiar with the term "packaging" in independent films? A. I am.

Q. What does that term generally mean?

A. The packaging is the contribution by the various persons or organizations all brought together for the purpose of producing one or more individual motion pictures.

Q. Are you familiar with the packaging that went to make up the picture "Copacabana"?

A. Yes, I am.

Q. What was that package?

The Court: Was there a written document evidencing that?

The Witness: Yes, there was.

The Court: I take it the written document is the best evidence of what the package was, counsel.

Mr. Fink: No further questions, your Honor.

(Testimony of Martin Eisenberg.)

Cross-Examination

By Mr. Gillard:

Q. Mr. Eisenberg, I am not quite certain by whom you were employed in connection with "Copacabana."

A. There is a custom in the industry——

Q. No, by whom were you employed?

A. I was employed by Beacon Pictures, Inc.

Q. Was it your function to be the controller of the production? [205] A. It was.

Q. It was your function to examine the budget of the picture and determine that its budget costs were within the amount of money available to be spent?

A. No, that is not the duty of the controller.

Q. What are the duties of the controller?

A. A motion picture controller is one who has the knowledge and experience of the costs of the elements of motion picture production and their administration.

Q. I gather that you testified you were employed as controller on the approval of the Bank of America.

A. That is correct. That is the custom in the industry, because the bank has to have some responsible person upon whom they can depend, that the moneys loaned by the bank and other financial interests contributed by others along with the bank are disbursed properly.

(Testimony of Martin Eisenberg.)

Q. In determining whether or not those funds are disbursed properly, was it not part of your duty to determine that no more funds were expended than were available for the production?

A. That can't always be the case, because sometimes we have difficulties in the course of the production that require additional money to be expended, and that is what they call a picture going over a budget, or costing more than they anticipated it to cost.

Q. Was the budget, as originally set up for "Copacabana," in [206] excess of the amount of money available through the first and second——

A. No, it was less.

Q. It was less. You referred to certain activities on the part of Mr. Koch in making suggestions with reference to eliminating some dance routines, is that correct? A. Not alone that.

Q. Let us take them one at a time.

A. O.K.

Q. Did he have any authority to cut out those dance rountines?

A. No, he as an individual did not have, but by collaboration and discussion, they arrived at the concerted opinion of all those who attended the production meetings, and a lot of his suggestions were followed and saved a lot of money.

Q. I believe you testified his function in being there was as the man who had put up the pre-production money. A. Yes.

(Testimony of Martin Eisenberg.)

Q. And his purpose in being there was to try to protect his investment so far as he could?

A. That is correct.

Mr. Gillard: That is all.

Redirect Examination

By Mr. Fink:

Q. How many other owners were there of the film "Copacabana"?

Mr. Gillard: I will object to that as calling for the [207] opinion and conclusion of the witness and not being the best evidence.

The Witness: That would not be so, sir, because I do happen——

The Court: Mr. Eisenberg, when an objection is made, the Court will rule as to whether you can answer or not, if you will just wait a moment, please.

The Witness: I beg your pardon.

The Court: Do you expect to pursue that question further, counsel, if he answers it "yes" or "no"?

Mr. Fink: Yes, your Honor. If he answers the question, I expect to pursue it further.

The Court: I will permit the answer as to a number for the purpose of getting that fact. The question is, how many owners were there? I will overrule the objection that far, because there is no question about it. There were some different inter-

(Testimony of Martin Eisenberg.)

ests in it. Answer that. How many owners were there?

The Witness: There were more than six or seven.

Q. (By Mr. Fink): Was Mr. Koch one of those owners?

Mr. Gillard: I object to that as calling for the opinion and conclusion of the witness, your Honor.

The Court: I think it does call for an opinion. If there is anything that shows his ownership, counsel, and it is in evidence, then why ask this witness about it? [208] Is it in evidence?

Mr. Fink: Exhibits 16 and 17, your Honor.

The Court: All right.

Mr. Fink: Those are the written documentation on it.

The Court: Why go into it further with this witness?

Mr. Fink: Except certain new phases were opened up on cross-examination.

The Court: Ask your next question.

Q. (By Mr. Fink): Counsel asked you for a conclusion as to under what guise Mr. Koch was acting at the time he was at the studio. Did he act as one of the owners of this film? A. Yes——

Mr. Gillard: I object to that as calling for the opinion and conclusion of the witness.

The Court: That is sustained.

Mr. Fink: No further questions, your Honor.

Mr. Gillard: No further questions.

The Court: May I see counsel at the bench?

(Discussion between counsel and the Court at the bench out of the hearing of the reporter.)

The Court: We will take a recess at this time until 1:45, not 2:00 o'clock this afternoon, but [209] 1:45.

Wednesday, November 28, 1956—1:45 P.M.

Mr. Fink: Call Mr. Sebastian.

The Court: There was a witness on the stand, was there not? Had you finished with the witness entirely?

Mr. Fink: I thought we had, your Honor.

Mr. Gillard: Yes.

DAVID A. SEBASTIAN

called as a witness on behalf of the plaintiffs, being first duly sworn, testified as follows:

Direct Examination

By Mr. Fink:

Q. State your name, please.

A. David A. Sebastian.

Q. Mr. Sebastian, where do you live?

A. I live in Beverly Hills, California.

Q. What address?

A. 127 North Swall Drive.

Q. What is your occupation, Mr. Sebastian?

A. I am an assistant producer. I have been a film editor prior to that.

Q. That is in the motion picture industry, is it?

A. Yes.

(Testimony of David A. Sebastian.)

Q. How long have you been connected with the motion picture industry?

A. Approximately 27 years. [210]

Q. Most of your adult life?

A. Most of my adult life.

Q. Prior to your coming into the motion picture business personally, were members of your family connected with that business?

A. Yes, my father was a producer.

Q. Were other relatives in either picture production or exhibition business?

A. Yes, my brother was also a producer and was also in the theatre business.

Q. To what extent?

A. Well, he was manager for the Orpheum Circuit in Los Angeles prior to becoming a producer in the business, and then my brother-in-law was manager of the Keith Alby Circuit west of Denver.

Q. You are related to the Koch family?

A. Yes, I am by marriage.

Q. You know Mr. Maurice Koch?

A. Yes, I do.

Q. Do you also know Harold Koch?

A. Yes, I do.

Q. Do you know William Koch?

A. Yes, I do.

Q. Do you know the sister?

A. Yes, I do. [211]

Q. What is her married name?

A. Mrs. Abel.

Q. Right here in the courtroom?

Testimony of David A. Sebastian.)

A. Yes, she is.

Q. Have you had transcations relating to the motion picture business with the members of the Koch family whose names you have just mentioned?

A. Yes, I have.

Q. Over what period of time?

A. The past six or seven years, I would judge, more or less.

Q. Well, this is the year 1956. In what year did your associations and affiliations with them in connection with the motion picture matters start?

A. About 1943.

Q. In 1944 did you become a member of Producers' Syndicate? A. Yes, I did.

Q. With the Koch family and others?

A. Yes, with the Koch family.

Q. Calling your attention to matters that ran into the year 1947, I call your attention particularly to the year 1946: Did you know a Mr. David Hersh?

A. Yes, I did.

Q. Is he living now?

A. No, he is dead.

Q. He passed away? [212] A. Yes, he did.

Q. Do you know Mr. Sam Coslow?

A. Yes, I do.

Q. Do you know where he is now?

A. Yes, he is in England.

Q. He is in England? A. Yes, he is.

Q. Do you recall the making of a picture called "Copacabana"? A. Yes, I do.

(Testimony of David A. Sebastian.)

Q. Approximately when was that picture finished?

A. Approximately the first part of 1947 it was completed.

Q. Prior to the making of that film did you have activities in connection with the David Hersh whom we just mentioned?

A. Prior to the "Copacabana" deal?

Q. Yes. A. No.

Q. Was that the first picture that was made after you and Mr. Hersh got together?

A. Yes.

Q. Preceding the making of that film, did you have business dealings with your brother-in-law, Mr. Maurice Koch, in connection with your business with Mr. Hersh?

A. Prior to the making of the picture?

Q. Yes. A. Yes, we did. [213]

Q. What were those initial discussions?

A. The initial discussions were relative to the raising of funds, the moneys for the Beacon Pictures Corporation, in order to go ahead with the making of the "Copacabana" picture. I would like to add to that, if I may. The original meetings we had, Dave Hersh and I, with Mr. Koch were for the purpose of financing independent producers in Hollywood.

Q. Any particular phase of financing discussed?

A. Yes, what we termed front money, or money previous to institutional financing.

Q. Will you please talk slowly, take your time,

(Testimony of David A. Sebastian.)

and talk good and loud? A. All right.

Q. We asked about your early discussions with Mr. Hersh and Mr. Koch in connection with the financing of motion pictures. What were your early discussions about?

A. The early discussions I had with Mr. Koch regarding the financing of motion pictures was Mr. Koch was interested in going into motion picture business, and I was to go in there and act as his agent or in his behalf and in accordance with my own specialty.

Q. Insofar as the discussions that were first had between you, Mr. Hersh, and Mr. Koch, what was the subject of those discussions?

Mr. Gillard: I object to that as calling for the opinion [214] and conclusion of the witness.

The Court: I take it it is preliminary, is it?

Mr. Fink: Yes, your Honor. I asked for the subject of the discussion.

The Witness: The subject of the discussions was the raising of funds and the advancement by H. Koch & Sons for the purpose of financing and putting up front money.

Q. What do you mean by "front money"?

A. That is the money that you use before you have your package together, that is, forming the company and acquiring rights to certain properties, and the necessary expenses that go into the first preparation before you can qualify, have a completed script and qualify for bank financing and secondary moneys.

(Testimony of David A. Sebastian.)

Q. Did you hold such discussions with Mr. Koch in the early part of 1946? A. Yes, I did.

Q. Was there any determination made at that time as to whether or not H. Koch & Sons would participate in the so-called financing of independent producers with so-called front money or preproduction money? A. Yes.

Mr. Gillard: I object to that as calling for an opinion and conclusion.

The Court: It does call for an opinion, counsel. I [215] permitted the other question because I thought it was preliminary and you were going to ask what was said.

Q. (By Mr. Fink): How many such discussions occurred, Mr. Sebastian?

A. We had quite a number of discussions.

Q. Over what period of time?

A. Over the first part of early 1946.

Q. Was this over a period of days, weeks?

A. It was over a period of months.

Q. Will you tell us what was said in those conversations over a period of months?

Mr. Gillard: I object to that.

The Court: Sustained. If you are going into what was said, let us get a conversation, counsel, and do it in the way that the rules require you to do it.

Q. (By Mr. Fink): Do you recall when the earliest of these conversations occurred?

A. I think it was the first month or two of 1946, as I recall it.

(Testimony of David A. Sebastian.)

Q. Who was present at that conversation?

A. Mr. Koch, myself and Mr. Hersh.

Q. Where did the conversation occur?

A. The first conversations we had were in Los Angeles at Mr. Hersh's house.

Q. What was said at that time? [216]

A. The discussion then was to set up the company or set up financing for the purpose of putting up the front money for independent productions.

Q. What did Mr. Koch say H. Koch & Sons would do, if anything?

A. He said they would be willing to put up a certain sum of money for this purpose, and that this fund would then be rotated.

Q. Are you able to distinguish in your mind now what conversation occurred at each one of these meetings?

A. In a general way. It is a pretty long time ago, but in a general way I believe I could.

Q. Do you recall when the second conversation took place?

A. The second conversation, I believe, took place in my office, if I recall rightly.

Q. Who was present at that time, when you say "your office"? A. I mean Mr. Fink's office.

Q. You mean the office of Fink, Ralston, Levinthal and Kent in Hollywood?

A. That is right.

Q. Who was present at that conversation?

A. Mr. Hersh, myself and Mr. Koch.

Q. Was Mr. Fink present?

A. Yes, Mr. Fink was present.

(Testimony of David A. Sebastian.)

Q. What was said at that time?

A. At that time the thought was to go ahead and set up a [217] fund for the making of this first picture, which was to be "Copacabana," and that this fund would then, after the bank loan was made, these moneys would come back and we would go in a second or third venture, using the fund on a rotating basis.

Q. The discussion was, you would rotate these funds, putting them in before the bank loan was made, and getting them repaid out of the bank loan? A. Correct.

Q. Do you recall when the next conversation occurred?

A. The next conversation we had, if my memory serves me right, was back in San Francisco.

Q. Who was present at that conversation?

A. At that conversation was Mr. Grupp, myself and Mr. Koch.

Q. By the way, did you ever have discussions upon the subject at or about the same time with other members of the partnership, that is, other than Maurice Koch?

A. Yes, I did, prior to the meeting with Morris Grupp. I came up here before that in order to outline the proposed picture from the creative side of it, what we thought the content would be, and what we would have, and I outlined the whole production, what the ingredients of the picture would be, etc.

Q. During the balance of that year, 1946, ap-

(Testimony of David A. Sebastian.)

proximately how much time did you spend with Maurice Koch?

A. The first part of 1946? [218]

Q. Yes. A. In the first part of 1946——

Q. During the entire year, if you can describe it.

A. During the entire year I would say I spent three months in total amount, a short period or a longer time in production.

Q. In the year 1946 that would be three months or 90 days? A. I would estimate that.

Q. During that period of 90 days or three months, adding it all up, what was Maurice Koch doing?

A. Maurice Koch was helping in the preparation of passing on contracts which had to be assembled, passing on the deals being made, seeing that, as represented, the prices of things to be spent were in accordance with the budget, and what was represented to give the merchandise, the picture, under the type of release we had; it had to come in under a realistic figure.

Q. When the "Copacabana" picture who photographed, were you engaged in that work?

A. Yes, I was.

Q. What was the description of the work you did?

A. I would be assistant producer of the picture.

Q. What does the producer do in the picture?

A. The producer handles the creative end of the picture.

(Testimony of David A. Sebastian.)

Q. What did you do?

A. I was the assistant to the producer. [219]

Q. Did you also handle the creative end?

A. Yes, I did.

Q. Did the producer handle any of the financial end of that picture? A. No.

Q. Coming to the year 1947, did you have occasion to see Mr. Maurice Koch in that year?

A. Yes, I did.

Q. Did you also see other members of the Koch partnership? A. Yes, I did.

Q. What was the occasion for your seeing them?

A. I came up here regarding the Jack Chertok deal, which was the "Hill of the Hawk." I brought the books up with me. I receiver 30 books, and I brought some books up for them to read, so they could all read it.

Q. How much time would you say during the entire year 1947, the year in question here, did you spend with Maurice Koch?

Mr. Gillard: I object to that as incompetent, irrelevant and immaterial.

Mr. Fink: Preliminary.

The Court: Overruled.

(Question read.)

Q. (By Mr. Fink): Can you answer that?

A. Yes, I can. I would say I spent in the year 1947, the first two months, I know—I am pretty certain of that, [220] January and February, up to about the middle of March, as I recall, off and on.

Testimony of David A. Sebastian.)

ecause we were still getting ready to release the icture, and then we had previews, etc., and Murray as down there for previews—there was a considerble amount of time put in down there.

Q. You mean Los Angeles?

A. Yes, Los Angeles. We were going out to preiew the pictures, and we went out to preview the ictures.

Q. You said "down there."

A. I mean Los Angeles.

Q. How much time did you spend with Mr. Koch?

A. We spent quite a period of time between January and February, just before March, and then I came up to San Francisco on about March 17th, I believe it was, if I am not mistaken, 1947, and I spent here with them about two weeks, myself and Mr. Koch, in San Francisco.

Q. After the trip here in March of 1947, did you spend any time with Mr. Koch in Los Angeles?

A. Yes, I did.

Q. To what extent?

A. To a considerable extent relative to the deal "Hill of the Hawk" and Apex Films, Jack Chertok.

Q. During the time that you spent with Mr. Koch in the year 1947, did you observe his activities? A. Yes, I did. [221]

Q. What business was he working in?

Mr. Gillard: I object to that as calling for the opinion and conclusion of the witness.

The Court: Sustained.

(Testimony of David A. Sebastian.)

Q. (By Mr. Fink): What was he doing during all the time that you spent with him?

A. During the time he was down here we had meetings with Mr. Chertok, Mr. Mulgras, and Mr. Fink at the Friar's Club.

Q. Mr. Sebastian, you are going to have to give us some help here and take it a little bit more slowly and talk louder if you can. Get closer to the microphone. Were you connected with the matter called the "Fred Fisher Story"? A. Yes, I was.

Q. What did Mr. Koch do in connection with that matter?

A. Mr. Koch met with Mr. Al Green, the former director of "Copacabana." They had discussions regarding the making of "Hill of the Hawk." I mean, there were so many stories—"The Fred Fisher Story."

Q. How many discussions did Mr. Koch and Mr. Green have?

A. The discussions actually started during the filming of "Copacabana" and the completion of it. Mr. Green was busy. They met at the Apex Art Studios, and then Mr. Green's house, and had further discussions. Actually, even prior to that they came to an understanding. If my memory serves me right——

Q. Your understanding would not be proper to testify to. [222] A. All right.

Q. In the year 1947, I take it, the picture "Copacabana" was completed.

A. That is right.

Testimony of David A. Sebastian.)

Q. Was it shipped off for release, to your knowledge? A. Yes.

Q. And went into release throughout the world? A. Yes.

Q. Then, also, during the early part of that year you had discussions about the "Fred Fisher Story"? A. That is right.

Q. And the project of that picture. What was the next specific subject of discussion?

A. Insofar as picture making was concerned, picture financing was concerned, we discussed with Mr. Green the idea of actually making a series of pictures over a period of three years, which was our original discussion, and growing out of that was "The Fred Fisher Story," which was the first one we intended to go ahead with.

I would like to correct the first part of my testimony, which was the early part of 1947. I think it was a little confusing for me here.

Q. "The Fred Fisher Story" was to be the first of the series of pictures, is that correct, with Mr. Green? A. That is right, yes. [223]

Q. Subsequent to those discussions, or at the same time, whatever it may have been, did you have discussions about making other so-called Class A feature pictures? A. With Mr. Green?

Q. No, with anyone.

A. Yes, we did. We discussed after——

Mr. Gillard: Just a minute. The witness has answered the question.

(Testimony of David A. Sebastian.)

Q. (By Mr. Fink): The answer was "yes," is that correct? A. Yes.

Q. Do you recall the story "Hill of the Hawk"

A. Yes, I do.

Q. You just told us about that. Preceding this "Hill of the Hawk" matter, were there discussions or any activities looking towards the making of a film or films? A. Yes, there was.

Mr. Gillard: Just a minute. The witness answered the question.

The Witness: Yes.

Q. (By Mr. Fink): What activity did Mr. Koch or H. Koch & Sons participate in in that respect? A. I met with Mr. Al Green.

Q. Aside from the meetings with Mr. Green and the projected series of pictures with him, were other picture activities taken up during that year by H. Koch & Sons or Mr. Maurice Koch? [224]

A. I remember one, I believe, was Desi Arnaz and Lucille Ball. That was under discussion at the time.

Q. Did that have anything to do with Mr. Green? A. No.

Q. A different project? A. Yes, entirely.

Q. Do you recall any others at or about that same time in 1947?

A. Well, in 1947 we would also have another discussion and some B pictures, which would be made at Monogram.

Q. Did Mr. Koch participate in activities relative to the Monogram pictures?

(Testimony of David A. Sebastian.)

A. Yes, he did. He worked with Mr. Fink on the contracts which were submitted and which he went over. In my presence we discussed——

Mr. Gillard: Just a minute. We object to that. The witness is now giving conversations without the foundation being laid. He has answered the question.

The Court: That is true. Direct your attention to a particular conversation.

Mr. Fink: I had in mind, your Honor, the activities, not the conversations, so we can short-cut the time we are taking of your Honor's time here.

Q. Mr. Sebastian, what was the nature of this Monogram project? [225]

Mr. Gillard: I object to that as calling for the opinion and conclusion of the witness.

Q. (By Mr. Fink): Will you describe what the Monogram project consisted of?

A. The Monogram project consisted of the making of cheap, inexpensive pictures through the release of Monogram, which Mr. Koch was to put up the financing, the front money, and Monogram was to put up the production money.

Q. Insofar as the "Hill of the Hawk" was concerned, did you have discussions on that subject in the year 1947? A. Yes.

Q. Preceding those discussions, what were the activities that led up to that discussion?

Mr. Gillard: I object to that as vague and general.

The Court: It is. Sustained.

(Testimony of David A. Sebastian.)

Q. (By Mr. Fink): With regard to the property "Hill of the Hawk"—— A. Yes.

Q. ——when did you first have a discussion with Mr. Koch upon the subject of the "Hill of the Hawk"? A. The latter part of 1947.

Q. Who was present?

A. Mr. Fink was present and Mr. Koch—no, I came to San Francisco without first having discussions with him, and having read the book myself, and seeing if he indicated any interest [226] in this project.

Q. Before you had this book, before you discussed the particular title "Hill of the Hawk"——

A. Yes.

Q. ——did you have any discussions upon the same or similar subject matter that led up to this?

Mr. Gillard: I object to that as incompetent, irrelevant and immaterial.

The Court: I will permit that as preliminary. I take it the discussions were with Mr. Koch.

Mr. Gillard: That was not the question.

Mr. Fink: Yes.

The Witness: In the year 1947?

Mr. Fink: Yes. I will withdraw the question.

Q. Do you know Mr. Jack Chertok?

A. Yes, I do.

Q. Did you have occasion to talk with him in the year 1947? A. Yes, sir.

Mr. Gillard: I object to that as incompetent, irrelevant and immaterial.

(Testimony of David A. Sebastian.)

The Court: I will permit him to answer "yes" or "no".

The Witness: Yes.

Q. (By Mr. Fink): Where did this conversation take place?

A. It took place at the Friar's Club, it took place in Mr. Chertok's office, in Mr. Chertok's home. It took place in [227] your office, Mr. Fink. I had many conversations with Mr. Chertok.

Q. Pardon me?

A. We had many conversations with Mr. Chertok.

Q. Was Mr. Koch present at some of these conversations?

A. At the majority of them. In fact, he was at some that I was not.

Q. After you had these discussions with Mr. Chertok, did you have a talk with Mr. Koch, that is, out of the presence of Mr. Chertok?

A. Yes.

Q. Where did this conversation occur?

A. It occurred in Los Angeles and also in San Francisco.

Q. Which one occurred first, Los Angeles or San Francisco?

A. Los Angeles first, and then San Francisco.

Q. Where did the conversation in Los Angeles take place?

A. The conversation in Los Angeles took place in the Friar's Club, I believe, was the first conver-

(Testimony of David A. Sebastian.)

sation we had there. In your office was the first conversation.

Q. Who was present?

A. Mr. Fink was present, Mr. Koch was present, and I was present.

Q. What was said at that time, or approximately when was it?

A. It was approximately the latter part of 1947, as I remember; the last half of 1947, as I recall. [228]

Q. Will you tell us what was said at that time?

A. Yes. If I remember correctly, the discussion there was to set up a company for the purpose of financing, again, motion pictures in Hollywood in an independent way and also to finance Jack Chertok, and I think the instruction would be for Mr. Chertok to go East, if I recall correctly.

Q. Then did you have another conversation on the same subject after the conversation at my office?

A. Yes, we did. We discussed then using the Ambassador Films that was formed in your office for the purpose of buying "Hill of the Hawk."

Q. In the meantime, had you been to San Francisco? A. Yes.

Q. Had you talked with members of the Koch family? A. Yes, I did.

Q. You said something about sending Mr. Chertok East. Was there ever a discussion held with Mr. Chertok about his going East? A. Yes.

Q. When was that?

(Testimony of David A. Sebastian.)

A. That was about the middle half, I believe, of 1947, or shortly after.

Q. Who was present at that conversation?

A. Mr. Koch, Mr. Fink and myself.

Q. Do you recall where it took place? [229]

A. That took place in your office, Mr. Fink's office.

Q. What was said to Mr. Chertok about going East?

A. To acquire the rights of property and for the purpose of making the pictures that we had in mind.

Q. To acquire property rights to make a picture? A. Yes.

Q. Was "Hill of the Hawk" mentioned until that day?

A. It was not mentioned until 1947, as I recall.

Q. Did Mr. Chertok go East? A. Yes.

Q. He returned? A. Yes.

Q. After he returned, was there a conversation held? A. Yes.

Q. Where did that conversation take place, if you remember?

A. As I recall it, the next meeting we had was with Mr. Milt Grosner, Mr. Fink, Mr. Koch and myself at the Friar's Club.

Q. Milt Grosner, do you know him?

A. Very well, yes.

Q. What is his business or occupation?

A. He is head, I believe president or vice presi-

(Testimony of David A. Sebastian.)

dent, of the G. A. C., General Amusement Company of America.

Q. What is this Friar's Club that has been mentioned several times?

A. The Friar's Club is an organization similar to Belasco's. [230] It does charitable work for members of the entertainment field.

Q. People in the entertainment world?

A. Yes, that is right.

Q. What was said at the said Friar's Club with Mr. Grosner, Mr. Chertok, Mr. Koch, Mr. Fink and yourself?

A. At this meeting there was $7,000.00 paid into the Ambassador Pictures by Mr. Koch and $18,000.00 paid for the purchase of the book, as I recall it.

Q. What was the total price of the book?

A. $25,000.00.

Q. Was the book "Hill of the Hawk" mentioned at that time? A. Yes.

Q. What was said about it?

A. The thought was it would make a very, very fine picture.

Q. Did Mr. Chertok discuss his trip to the East?

A. Mr. Chertok, I believe, had already come back from the East.

Q. After he came back, were you ever present at any conversation in which he made a report of what happened in the East?

A. No, Max, I wasn't present at that meeting. I am sorry.

Q. After this conversation and the $7,000.00

(Testimony of David A. Sebastian.)

payment, was anything done with regard to "Hill of the Hawk" to your knowledge?

A. Yes, there was. There was a treatment made on the book, as I recall.

Q. Just how was this treatment made? [231]

A. It was made by Mr. Chertok, who hired the writers, paid for by Mr. Koch and his partners, as I understand.

Mr. Gillard: I object to the latter part and ask that it go out as the opinion and conclusion of the witness.

Mr. Fink: It may go out.

The Court: It may go out.

Q. (By Mr. Fink): Mr. Sebastian, what do you mean by "treatment"?

A. We take the book first of all. We had to get a slant on the book, because we couldn't produce the book as it was. We had to get a story line which had a beginning, a middle and an end. In order to do this, we had to eliminate some of the things in there that would not pass censure. For example, there are certain things in there that were not relevant to the true story line.

Q. Approximately how long did this preparation or treatment go on with regard to the "Hill of the Hawk" to your knowledge?

A. To my knowledge it went on approximately eight weeks.

Q. After that treatment was available, do you know whether or not Mr. Maurice Koch saw that treatment? A. Yes, he did.

(Testimony of David A. Sebastian.)

Q. Was anything further done with regard to a screen play or treatment?

A. On "Hill of the Hawk"?

Q. Yes.

A. I believe due to the difficulties of trying to whip the [232] story and casting problems, there was a difference of opinion on the approach to the story, that Mr. Koch sold out the rights that he had in "Hill of the Hawk" to Mr. Chertok.

Q. That was about two years later, wasn't it?

A. Yes, that was two years later. I mean to say, after that he stepped out, so far as I know.

Q. Do you recall the matter of some training films or discussions on that subject in the year 1947?

A. Yes, I do.

Q. Were you present at some of the discussions on that subject? A. Yes, I was.

Q. Where did these discussions take place?

A. The first discussion we had took place in Mr. Chertok's office, where he outlined the whole program to us, and that was about October or November of 1946, as I remember, when these came under discussion, and Mr. Koch and myself and Mr. Fink went over the whole program of these Army pictures, the contracts, etc., and Mr. Chertok was unable to finance them. That was our reason for being there and Mr. Koch's reason for being there.

Q. After these discussions with regard to the making of training films and the financing of them, were some training films made? A. Yes.

Q. Do you know how many?

(Testimony of David A. Sebastian.)

A. I believe there were about 30 or 40. [233]

Q. Did you work on those films? A. No.

Q. You were not employed in connection with them? A. No.

Q. At times when Mr. Koch was not in Hollywood or Los Angeles, and at times when you were there in the year 1947, did you act for Mr. Koch?

A. Yes.

Q. What did you do for him or for H. Koch & Sons?

A. Primarily what I did for Mr. Koch was to sit through a vast amount of different type of productions in order to find something that was meritorious before I would submit it to him, and he would pass on it, whether he had an interest in that type of product. If he did, he took it on from there.

Mr. Gillard: I object to the latter part of the answer and request that it go out as the opinion and conclusion of the witness.

The Court: I do not know what the latter part of the answer is, counsel.

(Answer read.)

Mr. Gillard: From the point with respect to what Mr. Koch did, I move that that be stricken as the opinion and conclusion of the witness and not responsive to the question.

The Court: I think it may remain.

Q. (By Mr. Fink): So far as your own personal knowledge is [234] concerned, with regard to the year 1947, approximately what part of Mr.

(Testimony of David A. Sebastian.)

Koch's time did he spend in connection with motion picture activities?

Mr. Gillard: I object to that as calling for the opinion and conclusion of the witness.

The Court: Sustained.

Mr. Fink: We have no further questions at this time, your Honor.

Cross-Examination

By Mr. Gillard:

Q. I do not believe you specified, Mr. Sebastian, your exact relationship to Mr. Maurice P. Koch.

A. I am his brother-in-law.

Q. Is your wife alive?

A. No, my wife passed away.

Q. Was that the relationship, that you married one of his sisters?

A. No, he married one of my sisters.

Q. He married one of your sisters?

A. Yes.

Q. In connection with the "Copacabana" affair, who first talked to you about that film?

A. About "Copacabana"?

Q. Yes.

A. It was first brought to my attention by Mr. Hersh, as I recollect. [235]

Q. At that time had Mr. Hersh already made arrangements for a picture based upon the Copacabana Club?

A. Mr. Coslow, I believe, had the release with

(Testimony of David A. Sebastian.)

United Artists for a picture—in fact, for three pictures, as I recall it, and Mr. Hersh with Mr. Coslow had obtained or, rather, through their other associates had obtained the rights, but no rights were actually paid for until Mr. Koch came into the picture. We talked about rights but no rights were actually obtained or paid for.

Q. Prior to that time, Mr. Hersh had formed Beacon Pictures Corporation, had he not?

A. Beacon Pictures Corporation was just a structure. It was not a company. There was no stock issued. It couldn't be issued because there was no money in the corporation.

Q. But the corporation had been formed?

A. Yes, but no permits or licenses for selling stock or distribution of stock had been obtained at that time.

Q. Prior to the discussions with Mr. Koch about "Copacabana," had the corporation been formed?

Mr. Fink: May I object on the ground that the witness would not know when it was formed.

The Court: If he does not, he may say so.

The Witness: I don't know when it was formed. I mean, actually when the Articles of Incorporation were taken out, I don't know. [236]

Q. (By Mr. Gillard): Prior to the time you first talked to Mr. Koch about this affair, didn't Mr. Hersh tell you that he had already formed Beacon Pictures Corporation?

A. They mentioned they had Beacon Pictures Corporation, yes.

(Testimony of David A. Sebastian.)

Q. And thereafter Mr. Hersh was desirous of forming a partnership with you, and that was for the purpose of promoting Beacon Pictures Corporation and the "Copacabana" film?

A. Mr. Hersh was desirous of forming a partnership with me, yes.

Q. And you did so? A. And we did so.

Q. I will show you a document entitled "Articles of Copartnership," dated July 23, 1946, and ask you to look at the last page thereof. Is this a photostatic copy of that? A. Yes.

Q. Would you like to look over that document and see if that is a partnership agreement that you formed with Mr. Hersh at that time?

A. It has my signature on it, so I would assume it is. My signature is here. I recognize David Hersh's signature and mine.

Mr. Gillard: I will offer it in evidence as defendant's next in order. It is a partnership agreement.

The Court: Exhibit J.

(The document referred to was thereupon received in evidence and marked Defendant's Exhibit J.) [237]

Q. (By Mr. Gillard): Your first discussions with Mr. Koch were for the purpose of getting some capital for the partnership of Hersh and Sebastian, were they not, Mr. Sebastian? A. No.

Q. Did you receive any money from Mr. Koch in the early part of 1946? A. Yes.

Q. Specifically when and how much?

(Testimony of David A. Sebastian.)

A. I received approximately—you mean all the total funds that went through me?

Q. What was the first amount that you received, Mr. Sebastian?

A. The first amount I received was $15,000.00, if I remember rightly.

Q. Do you remember when that was?

A. That was in the early part of 1946, some time in 1946.

Q. That was a personal loan to you, was it, Mr. Sebastian? A. No.

Q. What was it?

A. $10,000.00 of it was to go to Hersh & Coslow for the money to put into the company—in other words, it was the vehicle in order to assemble and obtain the release, because without the money in there, there was no way of obtaining a release of the picture "Copacabana." So the money was given to Hersh and Coslow, $7,500.00, and then there was another $2,500.00, in addition to the $5,000.00 which was left of the $15,000.00, [238] which was to defray the expenses which we entailed in behalf of Murray Koch prior to actual production.

Q. Let us go over this a little more slowly, sir. I will show you Exhibit No. 6. The first amount of money you received was a check made payable to your order and issued by Murray P. Koch, on behalf of H. Koch & Sons?

A. Yes.

Q. Was there any agreement executed with reference to the $15,000.00 between you and Mr. Koch?

(Testimony of David A. Sebastian.)

A. Not to my knowledge, or I don't remember.

Q. Was there ever anything in writing as to what the purpose of that $15,000.00 was?

A. No, not to my knowledge, not to my exact knowledge, no.

Q. The money was paid to you to dispose of in accordance with your desires?

A. No, under the direction of Mr. Koch.

Q. Under the direction of Mr. Koch?

A. Yes.

Q. Who was responsible to repay Mr. Koch for that $15,000.00?

A. May I tell you in my best way?

Q. I just want you to answer that question, Mr. Sebastian.

A. Thank you. The $10,000.00 went in to activate the corporation.

Q. I asked you who was responsible to repay the $15,000.00 to Mr. Koch represented by that check. [239]

A. There is a chain of events here, Mr. Gillard. The $10,000.00 was to be repaid out of the dissolution—when the picture was finished and profits came in, etc., and the corporation was then dissolved. The $10,000.00 which went in to pay for Hersh and Coslow were to come back to Mr. Koch. The $7,500.00, which was another $2,500.00, I believe, that was paid in addition to the $15,000.00—I notice there is $7,500.00, but there was another $2,500.00 paid, I am sure—that went to Hersh and Sebastian to defray the expenses that were entailed in the preproduction work.

(Testimony of David A. Sebastian.)

Q. The other check that you referred to is Exhibit 8 herein, a check made also to your individual favor for $2,500.00 by Maurice P. Koch on behalf of H. Koch & Sons? A. Yes.

Q. Out of the total of that $17,500.00, $7,500.00 was loaned directly to you, was it?

A. No, it was not loaned to me.

Q. It was loaned to Hersh & Sebastian?

A. No.

Q. To whom was it loaned?

A. It was not loaned. It was to defray the expenses which we entailed. We were employed at the time working for Mr. Koch.

Q. You were working for Mr. Koch?

A. We were agents of his, yes, and there were expenses entailed in there that we had been out of pocket for, meetings with him, [240] phone calls, etc., and this was to defray part of the expense.

Q. Who was responsible to pay that money back to Mr. Koch?

A. The $7,500.00, as I recall—we'll take the $7,500.00—the $7,500.00, as I recall it, would have been returned to Mr. Koch out of the profits of the picture. In other words, if I remember, I think Mr. Koch received a pro rata percentage points for the $7,500.00 which were to come out when the corporation was dissolved, which would come out of the profits of the corporation. But we ourselves were not held responsible for this. In other words, it was to come out of our share of the profits, but there was nothing that I know of in the papers drawn of these amounts being owed him, as I recall.

(Testimony of David A. Sebastian.)

Q. Was there any agreement drawn between you and Mr. Koch indicating you were not personally responsible for this money that was given to you?

A. Not to my knowledge.

Q. In the partnership of Hersh & Sebastian, did you put up any money for the capital of that partnership? A. For Hersh & Sebastian?

Q. Yes.

A. No, I didn't put up anything.

Q. You put in nothing? A. No.

Q. I refer you, sir, to paragraph 6 of your partnership agreement, Exhibit 5 in evidence [241] herein.

"Sebastian shall contribute to the partnership as capital cash in the sum of $75,000.00, which shall be reflected as his contribution to the capital account of the partnership. It is acknowledged that of that said sum the sum of $10,000.00 has heretofore been contributed to and for partnership purposes by Sebastian, and that said amount has heretofore been delivered to Hersh."

A. The $75,000.00 did not go for the partnership, Mr. Gillard.

Q. How about the $10,000.00, Mr. Sebastian?

A. The $10,000.00 did not go through the partnership.

Q. What, sir?

A. The $10,000.00 did not go through the partnership?

Q. It is did not go through the partnership?

A. No, sir.

(Testimony of David A. Sebastian.)

Q. What does this phrase mean?

A. That was, I believe, the original deal we had between Mr. Hersh and myself in order to safeguard these funds, and in talking with Mr. Koch. After that I believe Mr. Koch went direct to the principals themselves and made his own deal apart from us. I had nothing to do with the percentage points Mr. Koch received, or his participation in "Copacabana," or future investments that he made in "Copacabana." The only funds I received was the amount of $7,500.00, which I received half of it from the Hersh-Sebastian partnership. Other than that, there [242] was no money that went into the Hersh-Sebastian partnership that I know of.

Q. Let me read this again: "It is acknowledged that of the said sum, the sum of $10,000.00 has heretofore been contributed to and for partnership purposes by Sebastian." That is not true, sir?

A. I imagine it is if it says it there, but I paid the check myself, a personal check from the $15,000.00 Mr. Koch gave me, which had been deposited in my own bank account, not the partnership bank account, and I made that check payable to Sam Coslow and Hersh.

Q. Isn't it true, Mr. Sebastian, of that $15,000.00 which is represented by Exhibit 6 in front of you, you contributed of that amount $10,000.00 to the capital of Hersh & Sebastian as recited in this agreement?

A. Well, I will have to stand on the record, what it says there, Mr. Gillard.

(Testimony of David A. Sebastian.)

Q. Thank you. I will show you, sir, Exhibit 15 in evidence, being a letter signed by you and Mr. Hersh dated August 12, 1946. There again the $10,000.00 is referred to, is it not, sir? Would you read that middle paragraph, Mr. Sebastian?

A. "The $10,000.00 originally advanced to Dave Sebastian and subsequently turned over to me for capital investment in Beacon Pictures will be taken care of by the Hersh-Sebastian partnership interest in Beacon Pictures." [243]

Q. Was there anything said in there about the remaining $7,500.00 that was advanced to you?

A. No, I don't see anything here.

Q. Did you ever reach any agreement with Mr. Koch not to repay him that $7,500.00 in writing?

A. Not to my knowledge.

Q. Did you ever make any agreement with him not to repay the $10,000.00?

A. Not to my knowledge.

Q. Prior to the formation of the Hersh-Sebastian partnership, you had been employed in Hollywood, had you? A. Yes.

Q. By whom were you employed?

A. I was with Columbia at the time.

Q. When did you leave Columbia?

A. I left Columbia Pictures in late 1945 or early 1946, I believe, if my memory serves me right.

Q. What was your intended occupation after leaving Columbia?

A. I went on to Beacon Pictures, went into "Copacabana" with Mr. Koch.

(Testimony of David A. Sebastian.)

Q. With Mr. Koch or Mr. Hersh?

A. Well, with Mr. Koch and Mr. Hersh.

Q. Your intended occupation after leaving your salaried position was to engage as an independent producer?

A. No, that is impossible for me to have been an independent [244] producer. First of all, the deals were already set up, and those are the deals I went into. I went in as Mr. Koch's agent, and my specialty has always been where people don't understand the full techniques going into the making of the picture. I am the safety man put in there for the purpose of guiding. I did that many times. I did that with directors from New York. That was my specialty, on the creative side of it.

Q. Wasn't it intended that you be the producer of "Copacabana"? A. Definitely not.

Q. With reference to any other deals besides "Copacabana," what was your intended profession after leaving Columbia Pictures?

A. I only left Columbia Pictures at the time we made "Copacabana." That was the only time that I left, and I couldn't have been producer of "Copacabana" because I didn't have the release. Mr. Coslow did.

Q. I am not referring merely to that one picture, sir. In addition to "Copacabana" you had other plans, did you not? A. Yes, we did.

Q. Wasn't this your idea, Mr. Sebastian, that by virtue of your professional background you would at least be associate producer in pictures?

(Testimony of David A. Sebastian.)

A. I have never been an associate. I have been an assistant to the producer.

Q. You were looking, were you not, for opportunities to become an assistant or a producer? [245]

A. Definitely.

Q. It was your object to scout around and try to find deals on which you could make money as a producer or the associate producer of those pictures?

A. If I could build to that, yes. But you can't do that just for the asking.

Q. For that purpose you had the prospective financial assistance from your brother-in-law to put up the pre-production money for whatever opportunities you found that you saw fit to go into?

A. Mr. Koch selected all the deals we went into. It was not my selection.

Q. Weren't you the one who turned down the "Hill of the Hawk," Mr. Sebastian?

A. I turned down the treatment, not the book.

Q. You turned down the idea?

A. Also, Mr. Koch went on with the deal. I left it completely and Mr. Koch carried it on.

Q. Prior to that time hadn't you advised against going into that as a motion picture production because of the treatment of the book?

A. Prior to the purchase of the book? No, I submitted the book to Mr. Koch.

Q. With the recommendation that——

A. That we go ahead with it.

Q. Pardon me, sir, if I may finish my question.

(Testimony of David A. Sebastian.)

After the [246] story treatment on the book that you have referred to, you recommended to Koch that he not go into that deal, isn't that correct?

A. Upon my return from Europe, and I read the treatment in Europe, yes. After I saw the treatment, I recommended to him that I did not feel that they had followed the story line as we had discussed here, yes, before I left.

Q. And with reference to these other matters that you referred to on your direct examination, you said you had gone through piles of materials looking for good story material for the making of the picture?

A. I have in my home about 500 scripts, Mr. Gillard.

Q. You were looking at this for the purpose, one, of securing vehicles in which you could produce, if Koch would finance, isn't that correct?

A. Not at all, Mr. Gillard.

Q. What was your part to be?

A. I have served many times in any capacity. I was building towards that, yes, but I was serving. It was impossible for me—if I had a million dollars—to go down there as a producer automatically.

Q. What salary was Mr. Koch paying you?

A. Mr. Koch was paying my expenses and providing a job for me in any production we went into. That was my deal with him.

Q. No salary? [247] A. No salary.

Q. Any ventures that you went into, the opportunity was to be yours to make your living in some

(Testimony of David A. Sebastian.)

fashion in connection with the production of that picture?

A. Provided it promoted my career, yes.

Q. Provided he put up the pre-production money, isn't that correct? A. Yes.

Q. You were not an agent of Mr. Koch's, were you? A. Yes, I was.

Q. You were not paid by him?

A. Mr. Koch compensated me by providing for me a job within the production itself. The jobs that I would get would be step-ups, as we planned it, until ultimately I would be producing one day. However, you couldn't start at that point.

Q. What production did Mr. Koch ever own?

A. He owned—he was a big share owner in "Copacabana" and a very important one.

Q. He owned that?

A. He was a big owner of "Copacabana."

Q. It was owned by Beacon Pictures Corporation, wasn't it?

A. Of which he was one of the major—he held a major interest.

Q. He held some stock in Beacon Pictures Corporation? A. Not to my knowledge. [248]

Q. What other production did Mr. Koch own?

A. Well, of course, might I digress a little?

The Court: Just answer the question.

The Witness: What stage do you mean? Production to us is the purchase of a book, and I am in production. I don't know where you mean. If you

(Testimony of David A. Sebastian.)

mean a completed picture, that is the only one I know of that was completed, yes.

Q. Did you ever repay the $17,000.00 to Mr. Koch? A. No, sir.

Q. Did he ever ask for it? A. No, sir.

Q. I think you mentioned that this $10,000.00 that was turned over by you to Mr. Hersh and Coslow, was it?

A. To Hersh and Coslow, yes.

Q. Was that for the purpose of buying stock?

A. For them to buy their stock. Mr. Coslow didn't have the stock. He couldn't get the release. That was the condition of the release.

Q. Was the stock purchased?

A. So far as I know, it was. I mean, I wouldn't know, Mr. Gillard.

Q. You do not know if any stock was issued to Mr. Hersh and Mr. Coslow for that $10,000.00?

A. I assumed it was. I don't know. I never saw an exchange of stock or stock issued, no. [249]

Q. Did you lend any money or did you or the partnership of Hersh & Sebastian lend any money to Beacon Pictures Corporation?

A. I believe the $10,000.00, yes, that was given to the corporation by Hersh & Sebastian, so far as I know.

Q. When Beacon Pictures Corporation folded, did you file a claim in bankruptcy for your one-half interest in that $10,000.00? A. No, I did not.

Q. Did anybody on your behalf file such a claim in bankruptcy? A. No, not to my knowledge.

(Testimony of David A. Sebastian.)

Q. You are positive of that?

A. To my knowledge, Mr. Gillard.

Mr. Gillard: I will offer in evidence a certified copy of the Schedule in Bankruptcy, the referee's claim register, listing the claims filed against Beacon Pictures Corporation.

Mr. Fink: With respect to the apparent purpose for which it is now offered, your Honor, we object on the ground certainly under the law a stockholder or one who is entitled to get money on the dissolution of a corporation by reason of the retirement of stock, certainly has no claim in bankruptcy against the corporation, so whether or not a claim was or was not filed could not possibly make any difference in our case.

The Court: You are offering it for what purpose, Mr. Gillard?

Mr. Gillard: For the purpose of impeaching the witness on his testimony that a claim was not filed. [250]

The Court: It may be introduced for that purpose and marked Exhibit K.

(The document referred to was thereupon received in evidence and marked Defendant's Exhibit K.)

Mr. Fink: May I ask, for the record, your Honor, that we may be entirely clear on this matter. It is clear in this record the only question asked of the witness is whether a claim was filed for the $10,000.00 in stock.

(Testimony of David A. Sebastian.)

The Court: Or for his half of it.

Mr. Gillard: I did not phrase the question that way. That is correct.

Mr. Fink: There is no impeachment in this record, I do not believe, your Honor, based upon the way the questions went in and the answers were given.

Mr. Gillard: I would prefer to have the reporter read it back.

(Record read.)

Mr. Gillard: Will the Court indulge me a second?

Mr. Fink: May I add to my objection, your Honor, that no foundation has been laid for the introduction of the recent document?

Mr. Gillard: That is all for the moment, your Honor.

Mr. Fink: May I have the last exhibit, counsel?

Redirect Examination

By Mr. Fink:

Q. Mr. Sebastian, Beacon Pictures Corporation went into bankruptcy, is that correct?

A. Yes.

Q. At the time they went bankrupt, did they owe you some money? A. Yes.

Q. What for? A. For services rendered.

Q. How much do they still owe you that was unpaid at the time of the bankruptcy?

(Testimony of David A. Sebastian.)

A. I believe it was around $2,500.00 or $5,000.00, something like that—$2,500.00 something.

Q. I will show you here Exhibit K, which counsel has introduced in evidence without showing it to you, and which seems to be the claims register, Beacon Pictures Corporation, Bankruptcy Case No. 47748-WM. It shows here a claim September 15, 1949, the date of filing. Claim No. 5: David Sebastian, 616 North Bedford, Beverly Hills, $5,000.00.

A. That is for salary owed me.

Q. Speak up, Mr. Sebastian.

A. That was a deferment which I gave during the course of the picture. My salary was $7,500.00. $2,500 of that I drew and $5,000.00 of that I deferred.

Q. Did they owe you that when they went broke?

A. Yes.

Q. By the way, you hold some other claim in this bankruptcy. Carmen Miranda was your wife, is that correct? [252] A. That is correct, yes.

Q. You were married to her after the picture "Copacabana" was made? A. Yes.

Q. There is a claim also in this bankruptcy that you are administering in connection with this same picture? A. Yes.

Q. So far as Beacon Pictures Corporation is concerned, after it went bankrupt, did you ever get back the $17,500.00 from Beacon? A. No.

Q. Or any part of that $17,500.00? A. No.

Q. Did you ever transmit money for H. Koch & Sons? A. Yes.

(Testimony of David A. Sebastian.)

Q. I note that certain of the checks in evidence here for $30,000.00, $50,000.00 and other amounts were made payable to you. When you got those moneys, what did you do with them?

A. In some cases they were deposited to the partnership. In other cases they were given directly to Beacon Pictures.

Q. When it came to giving these notes, Exhibits 12 and 14, first for $50,000.00 and the second for $30,000.00, I notice they are made out to the order of Murray P. Koch. A. Yes.

Q. Did you ever get any notes from Beacon Pictures Corporation? [253] A. No.

Q. I noticed that you mentioned your activities, I believe you termed them, were on the artistic or creative side. A. Yes.

Q. Insofar as determining what part of the particular picture Mr. Koch was going to own or not own, or H. Koch & Sons was going to own, did you negotiate those percentages or amounts?

A. No.

Mr. Fink: No further questions.

Mr. Gillard: Just one further question.

Mr. Fink: I think I should as a matter of record, your Honor, move to strike Exhibit K. I do not think it has any impeachment value. If it had been shown to the witness, and he had had a chance to explain, I do not think it would have been offered in the first place.

The Court: The objection may go to the weight of the testimony or the exhibit. It may remain in evidence.

(Testimony of David A. Sebastian.)

Recross-Examination

By Mr. Gillard:

Q. Mr. Sebastian, the latter two checks that were referred to by Mr. Fink, the one for $50,000.00 and the one for $30,000.00, were received by you with specific instructions, were they not, from Mr. Koch for transmittal to Beacon Pictures Corporation?

A. For transmission to Beacon Pictures Corporation, correct, yes. [254]

Q. For the purpose of consummating a loan between that corporation and Mr. Koch directly, isn't that true? A. And the Koch people, yes.

Q. As a matter of fact, before you deposited that check to your bank account, that $50,000 check to your bank account, you had written to him and told him you were going to do so and asked for permission to do it in that fashion, so that the money could be held until the transaction was completed with Beacon Pictures Corporation, is that so?

A. If the record shows that. I don't recall writing the letter, no. If the record shows that.

Mr. Gillard: The letter is in evidence. I can't put my finger on it right now. Thank you.

Further Redirect Examination

By Mr. Fink:

Q. Mr. Sebastian, so we may have our play on words here clarified, what did Mr. Koch or H. Koch & Sons get for all this money as far as the picture

(Testimony of David A. Sebastian.)

"Copacabana" is concerned? Did they get just a loan or was there something more than that?

Mr. Gillard: I object to that as calling for the opinion and conclusion of the witness. The document is the best evidence.

The Court: Sustained.

Mr. Fink: I suppose I am a little late in making the objections, your Honor, but I would like to have the last questions that were asked of the witness objected to and the answer stricken for the purpose of the objection, due to the fact that they also call for the conclusion of the witness, and since we cannot clarify it, perhaps the record should be [255] clarified in that regard.

The Court: The answers may stand. They came in without objection.

Mr. Fink: We have no further questions.

Mr. Gillard: That is all.

The Court: We will take a recess now.

(Recess.)

REBECCA KOCH ABEL

called as a witness on behalf of the Plaintiffs, being first duly sworn, testified as follows:

Direct Examination

By Mr. Fink:

Q. Mrs. Abel, you are the sister of Mr. Maurice Koch? A. Yes.

Q. And of Harold and William Koch?

(Testimony of Rebecca Koch Abel.)

A. That is right.

Q. And you are a partner in H. Koch & Sons?

A. Correct.

Q. This partnership started, I take it, in 1941?

A. The beginning of 1942.

Q. We have here in evidence as Exhibit 1 the partnership agreement, which is dated December 31, 1941. A. That is right.

Q. You started in business in 1942?

A. January 1st, 1942. [256]

Q. Your partnership agreement was amended on or about the 23rd day of October, 1944?

A. That is right.

Q. Since this business was inaugurated beginning with the year 1942, who was the general manager of H. Koch & Sons? A. Murray Koch.

Q. Murray, also known as Maurice?

A. Known as Maurice P. Koch, yes.

Q. Were you active in this business?

A. Yes, I was.

Q. What were your duties?

A. The office work and their books.

Q. And your other two brothers, what did they do?

A. William Koch and Harold Koch took care of the plant management and the general running of the plant.

Q. I am afraid we are having trouble hearing you, Mrs. Abel. Will you speak slowly and as loud as you can? A. Thank you.

Q. You say that Harold and William Koch took

(Testimony of Rebecca Koch Abel.)

care of the plant? A. That is right.

Q. I take it your business in 1946 was somewhat smaller than it is now? A. Quite a bit.

Q. In 1946 and 1947 where was H. Koch & Sons' principal office located? [257]

A. 73 Beale Street, San Francisco.

Q. Did you occupy space in that building?

A. Yes, we did.

Q. What floor were you on?

A. We had the three floors, I believe—1946 and 1947 you said, did you not?

Q. Yes.

A. Yes, we had the three floors. I can't remember whether we had the ground floor at that time or not.

Q. At that time the business, going back to 1942 and 1943, your business was the manufacturing of luggage? A. That is right.

Q. Did you also buy and sell luggage from other people? A. Yes, we did.

Q. At the present time do you still make the same kind of luggage?

A. No, we do not. We are making fiberglass luggage today, which is entirely different.

Q. In other words, following the last several years you have been more or less in the fiberglass business? A. That is right.

Q. And your business, I take it, now is larger than it was in the days of 1946 and 1947?

A. That is correct.

Q. Did your business, since you told us you were

(Testimony of Rebecca Koch Abel.)

in charge of [258] the books and records in the office in 1946 and 1947, did you keep regular business records? A. Yes, we did.

Q. Did you supervise those books yourself?

A. Yes.

Q. Did you keep books and records of your business transactions? A. Yes, we did.

Q. Were you in the years 1946 and 1947, in addition to the luggage business activities, also engaged in the motion picture financing business?

A. Yes, we were.

Q. Did you keep records of your transactions in connection with motion pictures?

A. Yes, we did.

Q. Were you the bookkeeper all during the year 1946? A. Yes, the year 1946.

Q. In 1947 did you leave the business?

A. Yes, I did. I left in about March or April, 1947.

Q. Were you married at that time?

A. I went to South Africa.

Q. Did you continue to be a partner?

A. Yes, I did.

Q. And then you returned to this country?

A. Yes, in 1954, in March. [259]

Q. Did you resume the supervision of the bookkeeping since that time? A. Yes, I did.

Q. Do you know, at least up to the time that you left, the books and records of H. Koch & Sons?

A. Yes.

Q. Since this matter has come up have you for

(Testimony of Rebecca Koch Abel.)

counsel and for us looked up the old books and records? A. Yes, I have.

Q. Do you have them here in the courtroom?

A. Yes, I have.

Q. Will you turn to Account No. 40, please? Do you need both of these? A. No, I do not.

Q. You have handed me here the ledger page Account No. 40. It is headed "Investment," is that correct? A. That is correct.

Mr. Fink: Counsel, you have a copy of this page, have you not?

Mr. Gillard: I believe I have a photostatic copy of it.

Q. (By Mr. Fink): The first item on this page appears to be May 31st, and let me ask you this: On this particular page is it customary to make the entries only at the end of the month?

A. Yes, it is.

Q. In other words, transactions prior to this page are added [260] up at the end of the month?

A. Yes.

Q. I notice each entry here seems to be for the end of the month. A. Yes.

Q. On May 31, 1946, the end of that month, we see "CR 259 $17,500."

A. Yes, that represents a check issued. I say that represents a check issued.

A Juror: If the lady would talk into the microphone——

Q. (By Mr. Fink): The $17,500 represents what? A. A check issued.

(Testimony of Rebecca Koch Abel.)

Q. The "CR" represents——

A. Check 259.

Q. "CK," what does that refer to?

A. That is the check record 259.

Q. Do you have the check record here?

A. Yes, I do. There it is, $17,500.

The Court: Please. You are either speaking for the record or not.

The Witness: That $17,500 represents a check issued on May 17th to D. Sebastian for $15,000, and the other check here is issued on the 22nd for $2,500 to D. Sebastian.

Q. (By Mr. Fink): And the $15,000 check and the $2,500 check total the sum of $17,500, is that correct? [261] A. That is correct.

Q. That was entered at the end of the month on this page? A. Check 259, that is correct.

Q. Are there any matters on this page, Account 40, that do not pertain to the picture business?

A. Yes, there are.

Q. Will you tell us what they are?

A. There is one item down here, $66,000, which was the land that we purchased over in Corte Madera.

Q. Was that your factory land?

A. That was our factory land, yes, and the real estate tax on it for $287.00 is there as well.

Q. You have your factory property where your factory is located now? A. That is correct.

Q. And the taxes on that land in the year——

A. 1953.

(Testimony of Rebecca Koch Abel.)

Q. 1953, and aside from that everything else on that page relates to motion pictures?

A. That is correct.

Q. We see here an item of $50,000 put down here at the end of the month of August, 1946.

A. That is from check record 270, and it is issued on the 5th of August, payable to D. Sebastian for $50,000.

Q. The next one is $30,000, which is entered in the month of [262] October as far as Account 40 is concerned?

A. Then there is a check issued on the 17th of October—pardon me—on the 16th of October to D. Sebastian for $30,000.

Q. And we have on November 30th, 1946, an entry here of $20,000 at the end of that month.

A. That was a check that was issued on the 22nd and made payable to Beacon Pictures.

Q. These checks that you told us about so far are all from H. Koch & Sons, a copartnership?

A. That is correct.

Q. The next entry seems to be—now, that last item of $20,000, I see an item of $20,000 on December 31st as a credit. What does that indicate?

A. That was money received on the 31st of December. That is in the cash record. That was a check of $20,000 returned from Beacon Pictures.

Q. Beacon Pictures paid you back $20,000?

A. That is correct.

Q. That was December——

A. December 6th.

(Testimony of Rebecca Koch Abel.)

Q. December 6, 1946? A. Correct.

Mr. Fink: Your Honor, I should like to offer in evidence page 40 taken from the ledger, and I should like to ask leave of Court to substitute a photostatic copy of this page in order [263] that the books may be returned intact.

Mr. Gillard: So far, if the Court please, the testimony that has been elicited from this witness and the record of the investment account that she has read off merely duplicates the checks that have been put in evidence and the testimony of Mr. Koch. I do not know that this adds anything.

The Court: The photostatic copy may be admitted in evidence and marked Exhibit 37.

Mr. Gillard: May I pass up a photostatic copy to the Court for a minute? The evidence was that there were transactions on there which did not pertain to the motion picture business, and also there are transactions on there in 1948 which were excluded from the testimony at a prior time. I would assume that the record of this investment account 40 should be put in evidence limited to time.

Mr. Fink: At counsel's request I will be glad to withdraw the exhibit, if I may do so, since we apparently do have our checks in evidence and testimony in regard to these transactions already in the record.

The Court: Then you do not desire the exhibit introduced?

Mr. Fink: I think I would just as soon withdraw it and not encumber the record further.

(Testimony of Rebecca Koch Abel.)

The Court: The order admitting it may be set aside.

Q. (By Mr. Fink): I would like to have you take a look at Account No. 2, the year 1947. [264]

A. Account No. 2. I have the photostatic copy only.

Q. What was the cash position of H. Koch & Sons at the end of the year 1947?

A. At the end of 1947 we show overdraft, Pacific National Bank, of $14.14.

Q. Did you have any other bank accounts?

A. No, we did not.

Q. That was your only bank account?

A. Yes.

Q. At that time how much money did you have invested in the picture business?

A. At the end of 1947 we had $75,000.

Q. At the end of the month of October, 1947, what was the cash position of H. Koch & Sons?

A. October, 1947?

Q. October 31st.

A. We have an overdraft of $808.01.

Q. At that time how much did you have invested in the picture business? A. $82,500.

Mr. Fink: That is all.

(Testimony of Rebecca Koch Abel.)

Cross-Examination

By Mr. Gillard:

Q. Mrs. Abel, you have given us certain figures with reference to the investment of H. Koch & Sons in the motion picture business, and excluding the item of $20,000, [265] which was paid out in November and repaid in December, those two items cancelled each other, is that correct?

A. That is correct.

Q. The balance of the total investment shown by this account then was $97,500?

A. That is correct.

Q. The balance of the total investment paid out?

A. At what period?

Q. I am just now taking the investment side of the ledger, Mrs. Abel.

A. $97,500. You are correct.

Q. That is correct. You later testified from, I think you said, Account No. 2 that the investment at the end of 1947 was $75,000 and at the end of October, 1947, the investment was $82,500.

The Court: I think your dates are incorrect, Mr. Gillard. I do not think you mean at the end of 1947 they were $75,000.

Mr. Gillard: Maybe I misunderstood the witness.

Q. What was your testimony as to the amount shown in Account No. 2 as the investment of H. Koch & Sons as of December 31, 1947?

(Testimony of Rebecca Koch Abel.)

Mr. Fink: Counsel, No. 2 is the bank account. Do you want a copy of it?

Mr. Gillard: You are testifying from some other record.

Mr. Fink: Account No. 40 is the investment account. [266]

Mr. Gillard: You gave a figure as to the investment of H. Koch & Sons as of the end of 1947.

The Witness: No, 1946.

The Court: You gave another figure at another time, October, 1947.

The Witness: That is correct. October, 1946, I believe it was.

The Court: You gave a figure of $82,500.

The Witness: That was as of October 31, 1946.

Q. (By Mr. Gillard): Did you give a figure of $75,000? A. Yes, I did.

Q. For what was that?

A. That was at the end of October, 1946.

The Court: I don't understand. You just said that at the end of October, 1946, it was $82,000. Now you say $75,000.

A. October it was $82,000. December 31st it was $75,000.

Q. You said October both times.

A. I am sorry.

Q. (By Mr. Gillard): In other words, it is your testimony that the records show that during the year 1946 a decrease in the total original investment of $97,500 took place, is that correct?

(Testimony of Rebecca Koch Abel.)

A. I didn't quite follow the question.

Q. Your testimony shows a decrease in the total amount invested during the year 1946.

The Court: Decrease from what, counsel? [267]

Mr. Gillard: Decrease from $97,500.

The Witness: To $75,000 correct.

Q. (By Mr. Gillard): The decreases are shown by the entries in the credit account on investment account No. 40, is that correct?

A. That is correct.

Q. Investment account No. 40 is not what you call an original account, is it, Mrs. Abel?

A. Just what do you mean by an original account?

Q. It is an account which is taken from other accounts, which are the original accounts.

A. The postings in the Account No. 40, investments, are drawn from the general journals of the books.

Q. And those would be considered the original accounts?

A. The original entry. This is the control book.

Q. The first decrease in the investment of H. Koch & Sons which is shown on investment account No. 40 was made with an entry on June 30, 1946, in the amount of $5,000, is that correct?

A. That is correct.

Q. That was taken from your cash receipts record on page 102? A. That is correct.

Q. Will you turn to cash receipts record, page 102, and tell me where that $5,000 came from?

(Testimony of Rebecca Koch Abel.)

A. That consist of two checks, one check for $2,500 on the 18th of June from F. Farilla and one from R. Haller for $2,500. [268]

Q. The next item on your investment account 40 as of August 31st shows a credit to the account of $2,500. That came from your accounts receipts register, page 107. Where did that money come from?

A. That was the cash receipts on the 22nd of August from Roy Haller.

Q. The next item on the investment account, $7,500, posted as of October 31, 1946, in the amount of $7,500, that came from cash receipts record, page 112, where did that money come from?

A. That was a check on the 8th of October from F. Farilla.

Q. For $7,500? A. $7,500.

Q. And the last entry, disregarding the cancelling $20,000 entries, is an entry on December 31, 1946, for $7,500, and that came from cash receipts at page 117, will you tell us what that entry is for?

A. That is on the 27th of December. There is a check for $2,500 from Roy Haller, one for $5,000 from F. Farilla.

Mr. Gillard: Thank you.

Redirect Examination

By Mr. Fink:

Q. Mrs. Abel, in addition to the money of H. Koch & Sons that was used in this picture business, did you likewise use money borrowed or obtained from other people? A. Yes, we did.

(Testimony of Rebecca Koch Abel.)

Q. Some of this money was obtained from a man named F. Farilla. [269] Was that Frank Farilla?

A. That was obtained by Maurice Koch, yes.

Mr. Gillard: I am going to ask that the answer go out to allow me to make an objection. The witness obviously is not testifying from her own knowledge on that.

The Court: The motion may be denied. It came in without objection.

Q. (By Mr. Fink): Then some additional money that shows as having come from—what was the other name? A. Roy Haller.

Q. Roy Haller. Do you know of your own knowledge whether or not H. Koch & Sons were seeking funds from other people to assist in this business of motion picture financing? A. Yes, we did.

Q. Pardon me? A. Yes, we did.

Q. In any event, so far as your books reflect, did you ever get back $80,000 from a picture called the "Copacabana"? A. No, we did not.

Q. The suit here in question has to do with a loss incurred in 1947 by the partnership in the sum of $75,000. A. That is correct.

Q. However, the notes which we have in evidence here indicate the sum of $80,000 was advanced in connection with the picture "Copacabana." Can you tell us what this $5,000 differential is? [270]

Mr. Gillard: I object to that as calling for the opinion and conclusion of the witness.

The Court: Overruled.

(Testimony of Rebecca Koch Abel.)

Mr. Fink: Insofar as your records are concerned. May I reframe the question?

The Court: Do you understand the question?

The Witness: No.

Q. (By Mr. Fink): How much money did you get from Roy Haller altogether?

A. $5,000—yes, $5,000.

Q. $5,000? A. I believe so.

Q. I see by your records here in connection with this "Copacabana" $17,500——

A. I am sorry, there is another $2,500 in here.

Q. Did he get part of that back? A. No.

Q. That was his money, is that correct?

A. That is correct.

Q. You never treated that as partnership funds, Mr. Haller's money? A. No, we did not.

Q. So we have no concern about that here.

A. That is correct.

Q. You received approximately, I think, in accordance with [271] figures counsel mentioned, around $15,000 from Frank Farilla, is that correct?

A. That is correct.

Q. Were there any changes made with regard to that money after it was noted as Frank Farilla?

A. Yes, sir.

Mr. Gillard: I object to that as incomprehensible.

The Court: Do you mean changes on the books?

The Witness: Yes.

The Court: You may answer.

The Witness: Yes, there were.

(Testimony of Rebecca Koch Abel.)

Q. (By Mr. Fink): What changes were made?

A. They were transferred to the credit of Maurice P. Koch, because the checks originally came in in the name issued by Farilla, and that is the way they were entered in the cash receipts book, while they were actually monies borrowed by Maurice P. Koch and contributed to the fund.

Q. That was the $15,000?

A. That was the $15,000.

Q. Did that constitute any part of the $75,000 loss that the partnership took? A. No.

Q. In other words, Mr. Koch's $15,000 that he borrowed was treated entirely separate?

A. That is correct. [272]

Mr. Fink: That is all.

Recross-Examination

By Mr. Gillard:

Q. When you say that changes were made, Mrs. Abel, you mean that investment account No. 40 originally corresponded with the original books of entry and showed various items that we have discussed referring to Mr. Frank Farilla, that they were originally entered on Account No. 40 as Frank Farilla, is that correct? A. That is correct.

Q. Then the name Frank Farilla was erased from Account 40?

A. Yes, it is a pencil notation just to break down the account.

Q. In the place of Frank Farilla was the name

(Testimony of Rebecca Koch Abel.)

of Maurice P. Koch? A. Yes.

Q. Who did that? A. I did that.

Q. At whose instructions did you do that?

A. On reviewing the account, when checking the records we found this was Mr. Koch's personal investment and not monies due to Farilla.

Q. Where in the records did you find that that was Mr. Koch's money and not Mr. Farilla's?

A. In general discussions, while going through this account.

Q. In other words, it did not appear in the accounts, is that [273] correct?

A. No, it does not appear in the accounts, because the check is entered in the cash receipts under the issuer of the check.

Q. When you just answered me and said in reviewing the accounts you found the error, that was incorrect?

A. We were reviewing the investment account, yes.

Q. There is nothing in the original books of entry show any contribution by Maurice P. Koch individually, is there?

A. No, other than the check from Frank Farilla.

Q. I will repeat the question. There is nothing in the original books of account that show any investment by Maurice P. Koch individually?

A. No.

Q. At whose direction did you erase the words "Frank Farilla" on Account No. 40 in three places and insert the initials "MPK"?

(Testimony of Rebecca Koch Abel.)

A. Well, I couldn't exactly say under whose instructions. I was checking the account to find what constituted this account, and in the breakdown I realized this was not Mr. Farilla's investment, that we were not liable to Mr. Farilla for that amount of money.

Q. You have made the original entries yourself in the cash receipts? A. Yes, I did.

Q. What was there in your review of those entries which indicated that you did not owe that $15,000 to Frank Farilla? [274]

A. The mere fact that I posted it to the investment account. It would not be in that investment account if we owed that money to Frank Farilla.

Q. Would that be true with reference to Mr. Haller?

A. No, we did not owe that money to Mr. Haller either. That was money that we got——

Q. The checks that were received from Mr. Haller and entered in the cash receipts book were carried under his name in the investment account, were they not? A. Yes, they were.

Q. Why from the accounts themselves did you determine the name Farilla should not be on the investment account as well as on the cash receipts ledger?

Mr. Fink: To which we object at this point on the ground it is purely argumentative.

The Court: She may answer. She made the entry.

A. No, I mean knowing what we owed, if we had

(Testimony of Rebecca Koch Abel.)

owed this amount of money to Mr. Farilla for some time, he would have been hounding us for it, and since he had not, it required investigation.

Q. (By Mr. Gillard): This investment account is not a debt, is it? A. No, it is not a debt.

Q. The fact that his name was on the investment account did not indicate you owed him anything? [275] A. No.

Q. That was not the reason you took Mr. Farilla's name off the investment account No. 40, was it? A. No.

Q. At whose direction did you erase the name, Frank Farilla, and insert the initials "MPK"?

A. We were discussing it. We were going through this and we were told it was Mr. Koch's account.

Q. Who told you that?

A. The partners, when we were discussing this here.

Q. Who in particular?

A. No one. It was in general discussion. I couldn't say exactly who.

Q. Did someone else besides Maurice P. Koch give you that information?

A. There were several of us in the room. I couldn't tell you exactly which one said it.

Q. In other words, the partners had a meeting and agreed that the name Frank Farilla should be erased from the investment account and the initials "MPK," referring to Mr. Koch, should be inserted in place thereof, is that correct?

(Testimony of Rebecca Koch Abel.)

A. They agreed it was Mr. Koch's money coming in and not Mr. Farilla's.

Mr. Gillard: Thank you.

Mr. Fink: Thank you. May we recall Mr. Koch for just a [276] moment.

MAURICE P. KOCH

recalled as a witness on behalf of the Plaintiffs, having previously duly sworn, testified as follows:

Further Redirect Examination

By Mr.Fink:

Q. Mr. Koch, in connection with money used in this picture business, did you have a $15,000 transaction, or a transaction totaling $15,000 with Mr. Frank Farilla? A. I did.

Q. What kind of transaction was that?

A. I borrowed $15,000 from Mr. Farilla to put in this picture deal.

Q. Did you ever repay the money?

A. Yes, sir.

Q. How?

A. I was in business with Mr. Farilla.

Q. You told us that the other day. How did you repay the money to him?

A. When we dissolved the partnership, I accepted that $15,000 as part of my payment of the business on dissolving the partnership.

Q. In other words, cleaning up your partnership arrangements with Mr. Farilla you accounted for this $15,000 back to him.

(Testimony of Maurice P. Koch)

A. That is correct, yes, sir.

Q. That is why you cleaned it up? [277]

A. That is correct.

Q. $15,000 that appears to have been deposited along with the other picture funds, did that come first to Mr. Farilla by way of check?

A. Mr. Farilla gave me the checks and I think there were about two or three checks, and they were turned over—they were endorsed and turned over to the firm, and that is how the name of Farilla got into our books.

Q. When you discovered that later were the books changed? A. Why, certainly.

Q. By the way, the $15,000 that you are now talking about, was that used for the picture business purposes in 1947?

A. That $15,000—we were hard pressed for money. The firm of H. Koch & Sons were hard pressed for money. We had a lot of money in the picture business there, and the loan that I obtained from F. Farilla & Sons reduced the loan that we had given Beacon Pictures Corporation by $15,000, and the firm used that money. That is why our investment was reduced to $75,000 instead of $90,000, by me borrowing $15,000 from Farilla.

Q. Then that $15,000, you lost that yourself?

A. That is true.

Mr. Fink: That is all.

(Testimony of Maurice P. Koch)

Cross-Examination

By Mr. Gillard:

Q. The original monies that you paid out in this case, the first monies that you paid out, you [278] have testified to—these two checks which total $17,-500—were advanced in the month of May, 1946, is that correct?

A. The first checks that were paid out were $17,500. I do not remember the exact date. You have the record there, sir.

Q. Exhibit 6 for $15,000 on April 25th.

A. That is what it says.

Q. Exhibit 8 for $2,500 on May 22nd.

A. That is what it says there, yes.

Q. The first check that you got from Mr. Frank Farilla was in the month of June, 1946, for $2,500, is that correct? A. Yes, sir.

Q. At that time had you asked him for $15,000?

A. Yes, sir.

Q. You had asked him for 15,000 at that time?

A. Yes, sir.

Q. He did not have it?

A. That is right, sir.

Q. So $15,000 was not borrowed in June, 1956, was it, Mr. Koch?

A. The $15,000 that I asked him for was going to be given to me in various checks.

Q. So that by June, 1946, you had borrowed from Mr. Frank Farilla, according to your testimony, $2,500.

(Testimony of Maurice P. Koch)

A. Whatever the record shows there.

Q. That is because you needed the money in the business, you were short of cash, is that [279] correct? A. That is correct.

Q. The next time you borrowed some money from Mr. Frank Farilla was $7,500 in the month of October, is that correct?

A. That is part of the $15,000.

Q. You borrowed $17,500 from him in October, 1946?

A. Whatever the record shows, yes, sir.

Q. At that time the business was likewise very short of cash, is that correct? I believe your sister testified at the end of October there was an overdraft of $14.00 in the bank, is that correct?

A. That is what the record shows, yes, sir.

Q. In December, 1946, you borrowed an additional $5,000 from Mr. Frank Farilla?

A. That was the balance of $15,000, yes, sir.

Q. In December, 1946, you likewise had an overdraft in the bank, is that correct?

A. That is right, sir.

Q. The final check that was sent to Beacon Pictures Corporation, the $30,000 check, was in the month of October, 1946? A. That is right.

Q. Mr. Koch, who instructed that any of your borrowings from Frank Farilla be entered in the investment account No. 40?

A. Originally I did not instruct—I put the money into the firm, I loaned the money, I borrowed the money from Frank [280] Farilla to put

(Testimony of Maurice P. Koch)

in this picture. It was put through the books, and I am not too familiar with the books. I am not familiar how the transaction got in there. I didn't instruct anybody to put it in 40.

Q. It was a borrowing of money from Frank Farilla, was it not?

A. I borrowed the money personally from Frank Farilla.

Q. Personally? A. That is right.

Q. It was not a borrowing of H. Koch & Sons?

A. That is correct.

Q. Who instructed that the transaction be entered in the partnership books of H. Koch & Sons?

A. I deposited the money into H. Koch & Sons.

Q. The Frank Farilla check?

A. Yes.

Q. And that was a debt owed to Mr. Frank Farilla? A. Yes.

Q. Each one of those checks is debt owed to Frank Farilla?

A. I owed it to him personally, not the business.

Mr. Gillard: Thank you, sir. That is all.

Mr. Fink: We have no further questions. The plaintiff will rest, Your Honor.

Mr. Morgenstein: At this time, Your Honor, the defendant would like to make certain motions.

The Court: Does the defendant rest? [281]

Mr. Morgenstein: May we approach the bench?

The Court: I would like to know if the defendant rests.

Mr. Morgenstein: We would like to make our

motion prior to the submission of the case. We would like to submit certain motions to the Court out of the presence of the jury at the conclusion of the plaintiffs' case.

The Court: We are about to take a recess at this time.

(Thereupon the jurors were excused, and in their absence the following occurred:)

Mr. Morgenstein: If the Court please, the defendant would like to move to dismiss and also for a directed verdict pursuant to Rule 50. Our motion to dismiss is based upon the fact that the complaint, the facts and the law fail to sustain a claim for relief, and also the motion for a directed verdict is based upon the fact that the allegations as contained in the complaint are insufficient to prove that the plaintiffs were engaged in the business within the meaning of the term in the Revenue Code and also the facts and the law as presented in this case are insufficient to warrant a jury finding that plaintiffs were engaged in a business as interpreted by the Internal Revenue Code of 1939.

(The motions were argued. During the course of the argument Mr. Gillard made this additional motion:)

Mr. Gillard: If the Court please, may I conclude one phase of this matter which Mr. Morgenstein did not touch upon, [282] and really prior to making the last motion we should have, and I now move the Court for permission to amend paragraph 2 of the

11th count of the answer and paragraph 2 of the 13th count of the answer. Those two paragraphs relate to paragraphs of similar number in the same and similar count numbers in the complaint. Referring to the complaint, paragraph 2, the 11th count, it is alleged, "In addition plaintiff, Maurice P. Koch, advanced in behalf of Beacon Pictures Corporation $15,000 from the community funds of his wife and himself upon the same basis that the aforementioned $75,000 was advanced. Said $15,000 was also lost in 1947."

The answer, which was drawn in Washington prior to the receipt of the administrative files in this office, and prior to any pretrial work, says with respect to that allegation, "Admits, except to deny that this transaction was other than a loan, and except to deny that the basis of this loan was the same as the basis of the $75,000 loan."

There is a similar allegation in paragraph 2 of count 13, which is the cause of action on behalf of Mr. Koch's wife, Daisy Koch, and the answer of the Government is the same. We request the Court for permission to withdraw that answer and to substitute in lieu thereof the following:

"Denies all the allegations contained in said paragraph."

The reason for the motion is that we believe the evidence [283] as adduced and as produced by the plaintiffs shows that Maurice P. Koch did not advance any personal monies which were involved in this transaction. He did not advance any money to Beacon Pictures Corporation, and he did not lose

any money. The testimony is, as the Court will recall—and it came out just this afternoon for the first time—that these monies that were advanced, the first $17,500 which was advanced was the money of H. Koch & Sons. Thereafter, because of the financial stress of H. Koch & Sons, Maurice Koch went to Mr. Farilla and borrowed $15,000 over a period of several months. The last of those borrowings were specifically in accordance with the testimony of the witness because the corporation did not have the money and could not pay. The last one in December, 1946, was subsequent, and all payments had been made for or on behalf of Beacon Pictures Corporation. Merely by entering those borrowings into the investment account the Beacon Pictures Corporation cannot transmute the loan that was made by H. Koch & Sons from that partnership to Mr. Koch individually.

Secondly, the testimony is clear, as Mr. Morgenstein has just indicated, that the loans were made to Sebastian and Hersh and not to Beacon Pictures Corporation.

Third, the evidence is clear that there is no evidence that the money was lost. There was no demand ever made on Sebastian or Hersh for the collection of that money. Therefore we move that we be permitted to withdraw the answer and amend [284] as we have requested to be consistent with the evidence produced by the plaintiffs herein.

(Motions discussed further.)

(At the conclusion of all argument the Court made the following ruling:)

The Court: The motion of the Government to amend counts 11 and 13 of the answer may be denied.

The motion for a directed verdict against the plaintiff, Maurice Koch, individually may be granted, and the motion for a directed verdict as to the remainder—and I am speaking, when I say Maurice Koch, I am speaking of the $15,000 alone at the moment. As to his interest as plaintiff in the remainder of the thing the motion is not granted, and the motion for a directed verdict as to all of the plaintiffs generally as to the $75,000 involved may be denied.

The motion is denied under subdivision b of Rule 50.

Mr. Gillard: So the record may be clear, Your Honor, that $15,000 was divided between Maurice P. Koch and his wife, Daisy Koch.

The Court: Then as far as the $15,000 is concerned, as it applied to Maurice Koch and Daisy Koch, his wife, the motion for a directed verdict as to that amount and those persons named in that account may be granted. I would like to see counsel in chambers as to the instructions.

Mr. Fink: I was wondering if we might not require certain [285] stipulations at this point, in view of the nature of the special interrogatory we are going to submit to the jury.

The Court: I was going to do that in chambers. We can do that here while the reporter is here.

Mr. Gillard: Prior to that time, if Your Honor please, the Government will rest its case.

The Court: May it be stipulated by both parties that in view of the Court's rulings up to this time, that the only issue to be presented to the jury is the special interrogatory which reads as follows:

"During the year 1947 was H. Koch & Sons regularly engaged in the business of financing motion picture ventures? Yes—no."

May that be stipulated?

Mr. Fink: So stipulated.

Mr. Gillard: So stipulated.

The Court: May it be further stipulated that thereafter, after such special interrogatory has been submitted to the jury, that all motions, issues and facts involved in the case are to be determined by the Court unless the parties stipulate as to such motions, issues or facts?

Mr. Fink: So stipulated.

Mr. Gillard: So stipulated.

The Court: Are there any further stipulations that are required? [286]

Mr. Fink: I do not believe so, Your Honor.

The Court: I would like to see counsel in chambers.

(Counsel for the respective parties then adjourned with the Court to the Court's [287] chambers.)

Thursday, November 29, 1956

(The following proceedings were had in the Court's chambers, there being present the Court, counsel for the respective parties, the reporter, but no jurors being present:)

Mr. Fink: We are all assembled here now. The record may so show.

Comes now the plaintiffs and each of them and moves this Court for a directed verdict in favor of the plaintiffs; in the alternative, that the jury be instructed to return a "Yes" answer to the interrogatories being propounded to them pursuant to the stipulation.

Said motion is made upon the grounds as follows:

First, that the parties plaintiff to this action heretofore, and on the 23rd day of October, 1944, entered into a solemn contract between themselves which reads, among other things, as follows.

And I turn to paragraph 1 of Exhibit 2:

"The said partnership business will, in addition to engaging in those activities referred to in the existing partnership agreement, engage in the business of financing motion picture productions either by direct participation in such productions by way of stock investments or loans to motion picture producers or in any other form of financing that said partners [288] may mutually agree upon between themselves. It being understood in this connection that the said partnership may carry on such business as aforementioned either as joint adventures

in association with others, strangers to this partnership, or with any other person, firm or corporation the said partners deem advisable."

To hold in this case that the partners, after their solemn contract as between themselves, and which gives the only right for taxation that the Government may have, to hold in effect in any manner, shape or form these partners are not engaged in the manufacture of motion pictures when they have by their solemn contract so contracted to do would breach the form of contract and be contrary to the position contended for by the defendant.

Secondly, since there is no evidence in this case sufficient upon which reasonable men could possibly find that the plaintiffs were not engaged in the business of motion picture financing, both under the terms of their solemn contract as well as under the facts of this case.

In this regard it is our position that the parties having contracted between themselves to engage in the business of motion picture financing have, first of all, be foreclosed from their inquiry into that subject by the taxing authorities.

Secondly, that the facts in this case tend in every respect and only to establish that they did so engage pursuant to their agreement so to do. [289]

The Court: The matter may be submitted?

Mr. Fink: Yes, Your Honor.

The Court: The motion may be denied.

(Thereupon the Court convened in the courtroom, and in the presence of the Court, the

jury, and counsel for the respective parties, counsel made their closing statements to the jury, at the conclusion of which the Court instructed the jury as follows:)

The Court: It now becomes the duty of the Court to instruct the jury upon all questions of law. It is your duty to follow the instructions of the Court and to accept the law as given you by the Court. You are, however, the sole and exclusive judges of all questions of fact and of the weight and effect of the evidence and of the credibility of the witnesses. Your power of judging the effect of the evidence, however, is not arbitrary but is to be exercised with legal discretion and in accordance with the rules of evidence.

You are not to consider for any purpose any evidence which has by the order of the Court been stricken out, or the offer of any evidence which has not been admitted by the Court.

The statements and the arguments of counsel, and any purported statement of fact contained in any question asked by any counsel of any witness are not evidence in the case, and any statements made by a counsel either during the trial or during the argument, which are not supported by the [290] evidence, or which are inconsistent with my instructions as to the law, are to be disregarded by you. This, however, does not apply to stipulations of fact by counsel, which stipulations of fact must be treated by you as facts proven in the case.

In these instructions the Court is expressing no

opinion upon any of the issues required to be determined by the jury.

All principles of law given in these instructions are of equal importance. In civil cases, which this is, the affirmative of the issue must be proven by a preponderance of the evidence. The affirmative here is upon the plaintiff as to all of the affirmative allegations of the complaint which have not been admitted by the answer. If the evidence is contradictory, your decision must be in accordance with the preponderance thereof. When the evidence in your judgment is so equally balanced in weight and quality, effect and value that the scales of proof hang evenly, your verdict should be against the party upon whom rests the burden of proof.

This is an action brought against the United States Government by three brothers and a sister, to wit, Harold M. Koch, William L. Koch, Maurice P. Koch and Rebecca Koch Abel, together with the wives of the three brothers, for the refund of income taxes paid while the three brothers and the sister were members of a partnership known as H. Koch & Sons. The years for which the refund is claimed were the years 1947 and 1945. During those years the partnership of H. Koch & Sons [291] filed an income tax return and the individual partners paid taxes thereon. Later in 1949 the partners and their respective wives, who are the plaintiffs in this action, filed an amended income tax return for the year 1947, and later filed a claim for a refund with the Commissioner of Internal Revenue, contending that there had been a business loss in

the business of the partnership for the year 1947, and that inasmuch as this loss was greater than the income for 1947, that they were entitled to use the amount of the loss in excess of the income for that year to offset any gain in the prior year of 1945.

Thereafter the Commissioner of Internal Revenue made a determination that the loss incurred by H. Koch & Sons was not as a result of a business bad debt but that the loss occurred by reason of a non-business bad debt.

Thereafter plaintiffs filed this action against the United States, and in that complaint affirmatively alleged that the loss incurred by the plaintiff was one incurred while H. Koch & Sons was regularly engaged in the business of financing motion picture ventures.

The complaint alleges that the Collector of Internal Revenue notified the plaintiffs that in his opinion the loss in question was a non-business bad debt and refused to allow the full deduction claimed by the plaintiffs.

It is admitted in this case that H. Koch & Sons is a copartnership consisting of Rebecca Koch Abel, Maurice P. Koch, [292] Harold M. Koch and William L. Koch. It is conceded by the Government that the partnership did suffer a loss through the year 1947 in the amount of approximately $75,000 in connection with a certain motion picture venture. However, under the provisions of the income tax law the entire amount of this loss can be deducted

in the years 1947 and in 1945 only if it was the type of loss which permits such a deduction.

The plaintiffs in their complaint allege that the loss was either a business bad debt, a loss incurred in the business of producing motion pictures or a joint venture in the business of producing a motion picture, to wit, "Copacabana," and that in any case it constituted a loss from a business regularly carried on by H. Koch & Sons.

The Government, on the other hand, contends that the loss incurred was not one which was incurred in the trade or business regularly carried on by the plaintiffs, but that it did result by reason of a non-business bad debt. The law provides that if a non-business debt becomes worthless within a taxable year, the loss resulting therefrom shall be considered a loss from the sale or exchange of a capital asset, and that the treatment for income tax purposes of that loss would differ, depending upon whether H. Koch & Sons was regularly engaged in 1947 in the business of financing motion picture ventures.

The law provides that the taxpayer gets certain credit over a period of years upon his income tax return by reason of [293] the loss of a capital asset, but those credits do not permit him to take the full loss by offsetting that loss against the business income for the particular years in question, unless the loss resulted from a business regularly carried on by the taxpayer.

The question here to be determined is whether H. Koch & Sons were in 1947 regularly engaged in the

business of financing motion picture ventures. In determining that question you should consider all of the evidence which has been admitted in the case. The question of whether the debt is one the loss from the worthlessness of which is incurred in the taxpayer's trade or business is a question of fact in each particular case. The statute does not give a definition for the word "business." Accordingly, in determining whether H. Koch & Sons was regularly engaged in the business of financing motion picture ventures you should consider the word "business" to have its ordinary, common and accepted meaning. A taxpayer may engage in or regularly conduct one or several businesses at the same time. The amount of time as well as the proportionate amount of capital devoted to a particular business are each factors among other factors to be considered in determining whether or not one is regularly engaged in a particular business.

If a taxpayer regularly and continuously participates in business ventures in which he is not only financially interested but to which he devotes a substantial part of his time, such [294] activities may make such ventures a trade or business of the taxpayer. Isolated or infrequent transactions of a taxpayer in any field do not constitute a trade or business within the meaning of the Internal Revenue Code.

In determining whether an activity of a taxpayer is a trade or business you should consider among other things how extensive was the activity, the financial investment therein, whether it was regu-

arly carried on, and whether the activity occupied a substantial portion of the time, energy and effort of the taxpayer.

Taxpayers may act through employees, agents and other persons, firms and corporations appointed by such taxpayers, and the acts of such employees, agents or other persons, firms or corporations appointed by the taxpayer are in contemplation of law the acts of the taxpayer. Thus in considering the activities of the taxpayers in the instant case with relationship to the conduct, if any, of the business or enterprise, you are required to consider that the acts of any such employees, agents, persons, firms or corporations appointed by them are in fact the acts and the activities of the taxpayers.

The authorized act or acts of any one partner of H. Koch & Sons in connection with the partnership business or activities are in contemplation of law the act or acts and activities of all the [295] partners.

The burden of proof in this case is upon the plaintiffs to prove by a preponderance of evidence that the loan by plaintiffs to the Beacon Pictures Corporation was a loan made in plaintiffs' regular trade or business. There is a presumption that the determination by the Commissioner of Internal Revenue that the plaintiffs were not engaged in the trade or business of financing motion pictures is correct. The burden is upon the plaintiff to overcome the presumption of the correctness of the Commissioner's determination by proving by a preponderance of evidence that they were engaged in

the trade or business of financing motion pictures.

By a preponderance of evidence is meant such evidence as when weighed with that opposed to it has more convincing force, and from which it results that the greater probability is in favor of the party upon which the burden rests. Preponderance of evidence means not the greater number of witnesses but the greater weight, probability, quality and a convincing effect of the evidence and proof offered by the party holding the affirmative as compared with any opposing evidence. If the scales of proof hang evenly the verdict should be against the party who has the burden of proof.

In determining whether any issue has been proven by a preponderance of evidence you should consider all of the evidence bearing either way upon the question, regardless of who produced it. A party is entitled to the same benefit from [296] evidence that favors his cause or defense when produced by his adversary as when produced by himself.

If you believe that Maurice P. Koch used his own money in any transaction and was acting therein in his own behalf and not on behalf of H. Koch & Sons, that transaction cannot be considered by you in determining whether the partnership of H. Koch & Sons was engaged in the business of financing motion picture ventures.

The jury are the sole and exclusive judges of the effect and value of the evidence addressed to them and of the credibility of the witnesses who have testified in the case. There are a few standards or rules by which you can measure the testimony of

he witness and evaluate it and determine whether or not you want to believe it or how much of it you want to believe. The character of the witnesses as shown by the evidence should be taken into consideration for the purpose of determining their credibility, whether or not they have spoken the truth. The jury may scrutinize the manner of the witnesses while on the stand and may consider their relation to the case, if any, and also their degree of intelligence.

A witness is presumed to speak the truth. This presumption, however, may be repelled by the manner in which he testifies, by his interest in the case, if any, or by his bias or prejudice, if any, or by contradictory evidence.

A witness may be impeached by contradictory evidence or by [297] evidence that on some former occasions he made statements or conducted himself in a manner inconsistent with the present testimony as to any matter material to the cause on trial.

A witness wilfully false in one part of his testimony is to be distrusted in other parts. The jury may reject the whole of the testimony of a witness who has wilfully sworn falsely as to a material point. If you are convinced that a witness has stated what was untrue as to a material point, not as a result of a mistake or inadvertence, but wilfully and with a design to deceive, then you may treat all of his testimony with distrust and suspicion and may reject it all, unless you shall be convinced that he has in other particulars sworn to the truth.

You may also consider the manner in which a witness may be affected by the results of your verdict. You may also consider the extent to which he may be corroborated or contradicted by other evidence and, of course, finally any matter in general which you contend reasonably sheds light upon the credibility of the witness may be considered by you.

You must weigh and consider this case without regard to sympathy, prejudice or passion for or against either party to the action. Your verdict is to be reached upon the evidence produced upon the trial of this case, and you will not permit speculation, conjecture or sentiment to influence you one way or the other. [298]

A corporation is an artificial person. It must necessarily act through its servants, agents and employees. An act of an employee within the scope of his employment is the act of his employer. This case should be considered by the jury the same as if it were an action between persons of equal standing in the community. The fact that the defendant is the United States should not affect or prejudice your minds in any way, but the rights of the parties should be determined upon the evidence introduced in the case and the instructions given to the jury, which is the law and the only law to guide you in your deliberations.

The computation of income taxes is a complicated process and it is a very difficult matter to determine the exact amount which may be due. As I have stated, it is the function of the jurors to determine questions of fact. The question of fact in this case

is whether in 1947 the partnership of H. Koch & Sons was regularly engaged in the business of financing motion picture ventures. Accordingly, counsel on both sides have agreed upon a procedure which will simplify your labors in this case. It has been agreed that there will be submitted to the jury a certain question, and the jurors are merely to determine whether its answer to that question is in the affirmative or in the negative. The plaintiffs contend that your answer to that question should be in the affirmative. The defendant contends that your answer to that question should be in the [299] negative. When the question is answered, certain legal conclusions follow therefrom which will be determined by the Court, and the proper amount of income tax to be paid by the plaintiffs for the years 1947 and 1945 will be ascertained.

It is your duty as jurors to consult with one another and to deliberate with a view of reaching a verdict if you can do so without violence to your individual judgment. To each of you I say you must decide the case for yourself, but you should do so only after a consideration of the case with your fellow jurors, and you should not hesitate to change an opinion when convinced that it is erroneous. However, none of you should vote for either side nor be influenced in so voting for the single reason that the majority of the jurors are in favor of such party. In other words, you should not surrender your honest convictions concerning the effect or weight of the evidence for the mere purpose of returning a verdict, or solely because of the opinion

of the other jurors. Your verdict in this case, of course, must be unanimous.

Counsel, I am about to conclude my instructions. Is there any matter you desire to take up in the absence of the jury?

Mr. Gillard: Yes, your Honor.

Mr. Fink: No, your Honor.

The Court: There has been prepared for your convenience, as I have indicated, a special verdict. Omitting the title of the court and cause, this special verdict reads as follows: [300]

"During the year 1947 was H. Koch & Sons regularly engaged in the business of financing motion picture ventures?"

Answer, with a blank line, and then a blank line for the signature of the foreman.

If your answer to that question is "Yes," your foreman will write the word "Yes" in the blank space provided and will sign the verdict to which you have agreed. If your answer to that question is "No," the foreman will write the word "No" in the blank space and will sign the verdict at the place indicated.

If you desire to see any of the exhibits that have been introduced in evidence, if you will advise the Court officer, they will be delivered to you to the jury room.

Upon retiring to the jury room you will select one of your number to act as foreman. This foreman will preside over your deliberations, will sign the verdict to which you may agree, and will represent you in any future proceedings in the courtroom.

The person so selected should permit a full and fair discussion of the case, and the other jurors should assist the foreman in keeping the proceedings orderly and in expediting the proceedings in the jury room.

You may now retire and deliberate upon your verdict.

Mr. Gillard: If your Honor please, in response to your question we said yes, we did have some matters we would like to take up in the absence of the jury. [301]

The Court: Mr. Gillard, I asked you and I heard no answer and I went on.

Mr. Gillard: I said, "Yes, your Honor, we do." I am sorry.

The Court: I beg your pardon. I did not hear you.

(Thereupon, the Court and counsel for the respective parties adjourned to the Court's chambers, and in the absence of the jury the following took place.)

Mr. Gillard: If your Honor please, we would like to take exception to certain of the instructions given and certain of the instructions proposed by the Government which were not given.

We take exception to those portions of the charge given as follows: That portion which stated that the jurors are to consider all the evidence submitted in the case. We take exception on the ground that this is erroneous, that much of the evidence relates to conduct of the corporation and officers of the cor-

poration which we feel is not attributable to the partnership.

If your Honor please, we take exception to that portion of the charge which states to the jury the term "business" in the Internal Revenue Code is to be considered as having its ordinary meaning. We feel this is an erroneous application of the law as stated by the Supreme Court, and allows the jurors to consider facts which should not be considered in determining [302] the meaning of the word "business."

We also take exception to that portion of the charge which states that taxpayers may act through agents and corporations, and those acts of those agents and the corporations are to be considered as the acts of the taxpayers themselves. We feel as applied to this case, your Honor, this is an erroneous statement of the law as applied to the facts, in view of the fact that most of the activity was done by the corporations themselves, and since the issue in this case is whether H. Koch & Sons was a partnership regularly engaged in the business, the acts of the corporation in which the partners are officers, stockholders or members should not be considered as the acts and conduct of the partnership itself.

We also take exception, your Honor, to the failure to give certain charges requested by the defendant and those are as follows:

The defendants requested Instruction No. 5, to the effect that investing and financing is not a trade or business and should not be considered as a trade or business. We feel the failure to give——

The Court: The instruction is set out. It will be filed, so the record will show what 5 is.

Mr. Gillard: We feel the failure to give this instruction results in prejudice to the defendant, in that in relation to the other instructions given it allows the jury to consider as [303] evidence the financial activities, activity which cannot be considered a trade or business within the meaning of the Internal Revenue Code.

We also take exception to your Honor's failure to give Charge No. 6, proposed Charge No. 6, to the effect that—or your modification of Charge 6, that the activity may be a substantial portion instead of a major portion. We feel that the proposed instruction is a proper statement of the law, and that as given to the jurors in relation to the entire charge will allow the jurors to determine that a trade or business did exist when no such trade or business could exist within the meaning of the Internal Revenue Code.

We also take exception to the failure of your Honor to give Defendant's proposed Instruction No. 7, which relates to the fact that a partnership, that the mere fact that a partnership was formed does not mean the taxpayers are engaged in a trade or business. We feel a failure to give this charge in relation to the other instructions given to the jury results in the jurors being able to determine that a trade or business was regularly carried on merely by looking to the existence of a partnership agreement. We feel this is not the law, and in re-

lation to the entire charge any such finding by the jurors would be erroneous.

If your Honor please, we take exception to the Court's failure to give Charge 8 as requested by the defendant to the [304] effect that the business carried on by the corporation is not the business carried on by shareholders and directors. We feel the charge proposed by the defendant is a proper statement of the law, and in the situation and facts presented to this jury the jurors are now able to determine that the acts of the officers while carrying on corporate activity are the acts of H. Koch & Sons, the partnership itself. We feel that such is not the law, and such an instruction, when failed to be given in relation to the other instructions, is clearly erroneous and results in prejudice to the defendant.

We also except your Honor's failure to give Charge No. 9 as proposed by the defendant, to the effect that the activity of Maurice P. Koch as shareholder, officer and director of Producers Finance Corporation cannot be considered the activity of H. Koch & Sons. We feel that the instruction as proposed by the defendant is proper, and by failing to give this instruction in relation to the other charge results in prejudice to the defendant, in that the activity of Maurice P. Koch as a corporate officer may now be considered by the jurors as the activity of H. Koch & Sons in determining whether or not H. Koch & Sons was engaged in a trade or business.

If your Honor please, we also take exception to the Court's failure to give defendant's proposed in-

struction appearing on the first page of the supplemental instructions, to the effect that the jurors are instructed that an income [305] tax deduction is a matter of legislative grace. We feel the failure to give——

The Court: Don't repeat the same statement, counsel, which you do after each instruction. When you make your objection then make a general statement if you wish, but you have been repeating the same one after every instruction.

Mr. Gillard: There have been certain modifications. However, in this charge we feel there is not sufficient weight given to the internal revenue laws of the United States.

Mr. Fink: May we, in view of the exceptions taken, have the exceptions of the plaintiff at this time? The plaintiff excepts to the failure of the Court to give Instruction No. 13, instructing the jury that the jury may consider in determining whether or not H. Koch & Sons is engaged in the business of financing motion picture ventures the amount of time and effort expended in that direction, whether or not actual ventures were concluded.

In addition, we respectfully except to Instruction No. 15 to the effect that in considering the question of whether or not H. Koch & Sons devoted a substantial time to the financing of motion picture ventures the jury is required to consider all of their activities relating to that purpose of whether or not actual financing was concluded.

We also except with respect to the instruction given by the Court that the jury may disregard all

the activities of [306] Maurice Koch if such activities involve only him, his own funds, having been particularly held by this Court that as a matter of law all of Maurice Koch's activities in the motion picture business, the business of financing motion picture ventures were for and on behalf of the partnership rather than his own behalf and a motion having been granted by reason thereof.

The Court: Very well.

(Thereupon, the Court and counsel returns to the courtroom, and in the presence of the jury the following occurred.)

The Court: The formalities have now been completed and you may now retire to deliberate upon your verdict. You may now retire.

(Thereupon, at 1:45 p.m. the jury retired to deliberate upon its verdict.)

The Court: May it be stipulated, gentlemen, in the event the jurors desire to see the exhibits in the case that they may be delivered to the jury by the Court officer without further order of the Court?

Mr. Fink: So stipulated.

Mr. Gillard: So stipulated.

(Thereupon, at 5:35 p.m. the jury returned to the courtroom and the following occurred.)

The Court: Let the record show the jury is present. Ladies and gentlemen, have you agreed upon a verdict?

The Foreman: We have. [307]

The Court: Mr. Phipps, you are the foreman, are you?

The Foreman: Yes, sir.

The Court: Hand the verdict to the Court officer, please. Mr. Clerk, omitting the title of the court and cause, will you read the special verdict and ascertain whether that is their verdict?

The Clerk: Ladies and gentlemen of the jury, listen to your verdict as you have rendered it:

During the year 1947 was H. Koch & Sons regularly engaged in the business of financing motion picture ventures?

Answer: No. Signed "Charles L. Phipps, Foreman."

Is that your verdict as rendered?

(All members of the jury indicated in the affirmative.)

Mr. Fink: If the Court please, may we poll the jury?

The Court: Mr. Clerk, poll the jury. Ladies and gentlemen, as your names are called, if your verdict was as read by the Clerk, please answer "Yes."

(The jury was polled, each juror answering in the affirmative.)

The Court: The verdict may be recorded.

Ladies and gentlemen, thank you very much for your service in this case. You are excused from further attendance, and the Clerk's Office will notify you when you are required to appear again. You may now retire.

Mr. Fink: The plaintiff hereby moves the Court for judgment [308] notwithstanding the verdict. I do not know whether your Honor wants to take that matter up at this time. More appropriately it can be taken up at some other time.

The Court: Just as you please, counsel. By reason of the fact that you are from out of town I would make the hearing of that at your convenience.

Mr. Fink: Perhaps we could have the hearing sometime tomorrow at your Honor's convenience?

The Court: Very well, ten-thirty tomorrow morning. [309]

November 30, 1956, 10:30 A.M.

Mr. Fink: If the Court please, come now the plaintiffs, in order to clarify our motion, and move for a judgment notwithstanding the verdict and a judgment in favor of the plaintiffs and each of them, and likewise move that the special finding of the jury be vacated, set aside, and judgment entered for the plaintiffs notwithstanding such special finding. We take the law to be that a motion for a new trial at this particular juncture in this special type of proceeding would be premature insofar as the plaintiffs are concerned, in that judgment has not been entered, and the plaintiffs reserve the right to move for a new trial at a subsequent time after the entry of judgment in this cause. On the other hand, we assume the state of the law to be that the Court may at any time on its own motion grant a new

trial, that is, at any time up to a period of ten days following the entry of judgment.

(The motions were argued by both counsel, at the conclusion of which the following occurred:)

The Court: This motion may be submitted. I take it there are two motions here, a motion for a judgment notwithstanding the verdict and a motion that the special verdict be set aside.

Mr. Fink: Yes. I think we could clarify the record by taking one further step, and that is, neither side has any further evidence to offer in this case. [310]

Mr. Gillard: That is true. The matter was submitted.

The Court: It may be stipulated by both sides there is no further evidence in the case to be submitted.

Mr. Fink: Prior to judgment, yes.

The Court: Is that right?

Mr. Gillard: That is correct, your Honor.

The Court: The matter at this time may be submitted. [310-A]

November 29, 1956

The Court: The jury are present. Proceed.

Opening Argument to the Jury
On Behalf of the Plaintiff

Mr. Fink: If it please the Court, counsel, ladies and gentlemen of the jury, there may be certain facets of this case, due to the limited function the jury will play in this case, that are somewhat confusing at this time, but I believe we can relax because I believe when the discussions by counsel and the instructions of the Court have been given to you, this case will be a very clear and simple one for you to decide.

First of all, I would like to tell you the story about the law suit. H. Koch & Sons, a partnership, admittedly, consisting of four people we have talked about, three brothers and a sister, made their tax return for the year 1947, reported their income and paid their taxes. There is no question about that. Later on, due to the fact that the picture business, as you have been told and as you know goes on throughout the world, they found out in 1947 a certain film that they had money in went dead and the thing was a total loss. So they amended their tax return, filed their amended tax return, which is in evidence here, and they asked for a refund of their tax money. These papers were with the various Government agencies over a period of some years and it was finally turned down, so they brought the law suit to get back the taxes they paid.

A law suit is always made up, first of all, of a complaint. You file your law suit and tell your story about what you complain and circumstances that surround it. In this case the pleadings, which were the complaint and the answer, the complaint showed that H. Koch & Sons is a partnership, that in the year 1947, which is our year in question, they sustained a loss by reason of certain funds they advanced and became lost in that year, and that as a result, instead of having paid taxes, they were entitled to a refund, each one of them for the taxes paid.

Then the answer to the case can either admit everything that they said or can deny it, or it can admit part and deny part. In this case the answer, I believe prepared by somebody back in Washington, was filed in this case and says, "Yes, we admit you were a partnership. We admit you paid your taxes. We admit you put some money into some pictures. We admit you lost your money. We admit everything, except we say but—" This answer says —"but, although you are ordinarily entitled to deduct your losses, in this particular case the loss which you have incurred here is a non-business bad debt. It is not proximately related to your business, and therefore because it is a non-business bad debt—" that is the "but" of this particular answer—"we are not going to allow it." [2*]

So the question arises, was the debt incurred in a business or was it a non-business bad debt? Of course, I know that you all agree under our de-

***Page numbering appearing at top of page of original Reporter's Transcript of Record.**

mocracy anyone who claims they have something coming has a right to come to court and bring their lawsuit. He has the right to have the case tried before a jury of their neighbors in this community. I know that you realize also just because someone claims, files a lawsuit and makes a claim does not mean they are entitled to collect or entitled to win, and by the same token I know you also know because somebody denies your claim, a part of it, does not mean that they have any good defense.

This case, as we have mentioned, gets down to only a single question. I know that some of you tried cases before. In most cases it was a matter perhaps involving how many dollars and cents should the jury give, but in this case that is not present because we all agree we followed the tax tables in determining how much the plaintiff is entitled to. There is only one question left open in this case and that is, was this a non-business bad debt or was it a loss incurred in a business regularly conducted? And all of the testimony in this case which does not bear on that issue, so far as we are concerned, is no longer important, because all you are going to be called upon to answer, I believe—right now I do not know what the Court will instruct you, but I believe all the Court will tell you is that all you have to answer is yes or [3] no to the one single question that will be propounded to you, and that is going to be the limited function of the jury in this case. That is the only question open in the case really and that is whether H. Koch & Sons was engaged in the business of financing motion

picture ventures. It is as simple as that. You will answer yes or no and this case is over.

We talk about a business, and I think when you come to court you do not leave your common sense home. The word "business" here, I believe the Court will tell you, means the same as the word we use up and down the streets, in our homes and in the market place. The word means just that—business. It has no peculiar meaning, any different in the court room than it has in your ordinary life. However, I believe it would be well to examine what this business here consisted of.

To begin with, as I said, I don't know exactly what the Court will instruct you, but I believe the Court will tell you this, that any person or any firm can engage in any number of businesses. In other words, you can have a big business and you can have a teeny one, or you can have a dozen small ones. I know Miss Ernst and Miss Nordlund will tell you the Standard Oil Company have all kind of businesses. They are in the oil business, but they have other kinds of businesses, too. H. Koch & Sons is not any Standard Oil Company, but they certainly have the right to be, as the Court will tell you, in as many businesses as they want to be in. It doesn't [4] matter that they were in more than one business. They could be in any number they wanted to be in.

The Court will also tell you it is altogether possible for a person to have a big business and a small business, a business that they devote the major part of their time to and a business that they devote a

lesser amount of their time to. I think the Court will also tell you that they have a business which they devote their major assets to or their minor assets to. Still both of them are businesses. In this case we are talking about the motion picture business. When we talk about the motion picture business, that is quite different from most businesses. For that matter, I don't think the man who filed the answers in this case knew very much about the motion picture business. This is a business that is built on ideals. You just don't go out and put money in the motion picture business as you put it in stocks and bonds listed on the market. You start out and all you have is an intelligible, fleeting idea. If you take any of those ideas and follow them up, you are going to have an investment of over a million dollars. You have to start out, first of all, and you have to find a property in which you have confidence, a story. That is your foundation. You have to make sure that you acquire the property on the right terms so that you don't ever lose it, so that you can protect it. You are not going to build a 12-story building that cost you a million [5] dollars on a lot you don't own. The same thing is true. You are not going to make a picture based upon a story you do not own.

The next thing you have to have, you have to have, stars and, of course, the Kochs are not glamour people. They are hard-working people. They are not going to act in any pictures. They have to have stars. Not only that, but every picture has more than one star. It takes several stars. If you want stars for your

picture, you have to have them available all at the same time, because if one is making a picture in Europe and someone else is getting a divorce in Reno, you cannot start work. They have to be there when your stars are ready. The same thing is true with the director. We are talking, you know, about the independent motion picture business. This is not M-G-M, Paramount or Twentieth-Century-Fox, where they have the high-priced people under salary and know their backing. These pictures start out with a group of men who have their hands in their pockets and that is all. They have to find a studio that will rent them some space, having stages, cameras, laboratory facilities. They have to hire a complete staff, and all the time they are working on an idea. And, you know, one of the toughest jobs in the world is the creative job of following through on an idea. You get many of them. You follow through on them. You sleep on them by night, wake up with them in the morning, take them to lunch, dinner and [6] breakfast with you. You think about them all day long, and you work with them all day long. It is very intangible, and you have very little to show. What you are really doing, until that camera starts to grind, you are really experimenting, and we all know when you are experimenting you have many experiments that start but very few that end up. They start out in the picture business in some respects similar to the way they start in the oil business. A man goes out and finds the land. He gets together interested people. They get the machinery

to drill the well with. They start out and they hit a dry hole. Because they hit a dry hole does not mean they were not in the oil business. The question, is where did they devote their activities? When you experiment with something as you do with a picture until you get it all together, all packaged—let me tell you something. We have had a number of documents in evidence here. They remind me of the iceberg. They say that only about two per cent of the iceberg you see floating in the ocean is above water and is the part that you can see. Ninety-eight per cent is below the water. You can't even see it. Every one of these papers—they are just about two per cent—they are just the things that we can now see and tangibly bring to you.

But the thinking, the planning, the hoping, the trying to get in to get a star, trying to get a studio, trying to get the important people you have to get in touch with, [7] negotiating with them, getting money together—all these things that you can't see here at all, these just are little things that happened. Obviously you can't sign a contract with a star or a director or have a studio—you prepare all the contracts, but there is no use in committing yourself to use a star on January 1st and pay him $150,000.00 if you haven't got everything else that goes with it. So the contracts build up. You don't sign them until you have everything together at one time. You don't permit yourself to use a studio when you have nobody to put in that studio. Of course, one of the things you have to have is a release for your picture. You can't make the film and

take it home with you. You can't put it away in a vault. This picture is made for release. You have to have a release throughout the whole world to get your money out of it, some selling organization that operates throughout the world. They are few and far between. So all this talk you have heard here about things that didn't work out, these are the pains, the headaches that are normal and natural to this piece of experimentation and, frankly, I don't believe we had any showing in this courtroom to the contrary.

When you get into the picture business, that is a big piece of business. There is no single group of people who have independently gone out to do feature pictures, who have done too many of them in a lifetime. Each picture deal is a [8] tremendous milestone. It generally requires years to get one completely through. You have many starts, many attempts.

I am reminded of the days when I was much younger. I lived in Oklahoma. We used to live in a very small town. That was a day of the so-called drummer traveling salesman. He used to come up those dirt roads and go from village to village, from town to town and sell his goods. On Saturdays the stores were busy and they couldn't work. They stopped at a small inn that was near and they would get into a conversation. The story is told that one rainy Saturday afternoon one of these drummers said hello to another fellow he didn't know. He said, "How's business?"

He said it wasn't bad. He said, "I sold 200,000 white last week, 150,000 pinks, 100,000 blacks and

100,000 yellows and some reds." He said, "How's business with you?"

The fellow said, "I haven't had a sale in 18 months, not a single sale in 18 months."

The first fellow said, "You haven't had a sale in 18 months? What are you selling?"

He said, "I am selling steel bridges. What are you selling?"

He said, "I am selling jelly beans."

When you get in the picture business, you aren't doing business with jelly beans. You are not selling groceries. You are getting together a tremendous project and hope all [9] the elements of this project will somehow get together, coagulate so that you have a successful picture.

Insofar as the picture business again, I want to mention to you you are not buying something you are going to take home and put away in your vault, like an investment of your savings. You are not buying something for yourself. You are actually making something for resale, which is in itself the business.

I would like to turn for a moment, since we have had a view, first of all, of the general nature of lawsuits and, secondly, what this picture business is about, and I am pretty sure having heard the testimony you heard, you have a pretty good idea about it now, if you did not have before you came here. Let us turn for a moment to the Koch family. I think there is one thing we are all convinced of here, and that is these people are good people. I

don't think anybody can doubt that. They paid their taxes and they lost their money. This is all admitted. There is no question about it. And just thinking about that lawyer's testimony. He was a young lawyer starting out and his wife had to go to the hospital. I am thinking of Pop Koch, the father, gone to his eternal rest. And it reminds me of an ancient story about the old father who had is four children with him. He was going to die and he said to his children, "Bring me sticks." So they brought the sticks. He took one stick and he broke it and tossed it away. He took four sticks and put them together. [10] He couldn't break them. And he said, "See, my children, I want you to know that you are like these four sticks, that together you have strength, separate each of you can be broken."

These four children of Pop Koch have stuck together, one-for-all and all-for-one. They have worked and they have tried. They have tried no doubt and they would have tried anything that would have made them successful. But I know that you know one thing, that these Kochs, one-for-all and all-for-one, that is the only way they are. No other way.

You have had the testimony from the witness stand with the single exception of this friend of Maurice Koch's, who came back from the Army, he and his wife lived at the home three months and he got involved in business with him—that is the single exception in all these years. There has been no business dealings except the partners, and these four children of Pop Koch stuck together. We know the

Koch family were making luggage. Mr. Koch was on the War Production Board. During the war with people being displaced, there was a big demand for luggage, if you could get the material to make it with, but the number of manufacturers just doubled, and their claim was that H. Koch & Sons at that time was a well-known brand but had no particular standing in the trade, just another company making luggage. He knew, and I think it was pretty good foresight, at least he thought that there was going to be tremendous competition and they were all going broke. He [11] thought, "I want to find something else to get into." When these people started to find something else to get into, you must bear in mind the only connections, the only affiliations, the only other business they had any contact with was the motion picture business. They also knew they were not actors, they were not directors. By the way, everybody down in Hollywood is not a glamour face. That is for the actors and actresses. But in the picture business no matter how many actors you have, no matter how many studios you have, how good your story is, no matter how many people you have working for you, you can't make a picture without money. You can't do anything without money, as we all so well know. The picture business comes down to two sides.

One side is called the creative side. That becomes worthless if you don't have the other part. It is like slicing a man's heart in half. Half of it is worthless.

The other side is money. You have to have money on one side; the creative side is the other side.

Money has to have financial management with it because creative people just are not given money without financial management. There is reason for that. A creative man wants to create, wants the greatest achievement of all time to stand as a monument to him for all eternity. The financial man knows he has so much money he has to make a picture with. You have those two elements that make up the picture business. [12]

The Koch family realized they had better start getting into something else just in case. They had Maury scurrying to his friends and associates in Hollywood to get into some picture ventures. As I told you, nobody makes a picture by himself in the independent field. It is always a group. They start and get together with all kinds of people. You heard the story, and I want to tell you again that in between each one of these pieces of paper, in between everything that happened there were days and nights of meetings, there were days and nights of trying to formulate, trying to do, and the Kochs get an A for effort in your book, I know. They went down there and put up all their money, too. This was no taking of some surplus funds and tucking this away in the old sock where it was safe. This was taking all their money and putting it into a business that is the greatest gamble in the world because you are experimenting and you might get a hydrogen bomb out of your experiment, or you might get a dry hole. You might get nothing.

They didn't take surplus money when they were overdrawn in the bank. This was their finances, this

was their cash, this was their money, this was really important. $50,000.00, $30.000.00, $20,000.00, $25,-000.00, Producers Finance Corporation, a million dollars worth of Army pictures, training films—that is big, big business, and their end of it, they had a commitment each time to finance. Of course, they [13] looked to finance in 1947. Starting in 1946 and this year 1947 that we are concerned with, they looked to finance so-called pre-production. That is before the camera turns and you have no film to show. That is the most dangerous period, the biggest gamble of all because you may never have a film. If you have a film, at least you have something tangible, but that first money, the so-called pre-production money, the money you spend before the thing starts to jell, that money demands also the highest profits. As a result, we have $80,000.00, $50,000.00 and $30,000.00 going into one certain film, this Copacabana picture, and he wound up by owning fifty per cent of the picture because they took the big risk, they went through tough sledding and they were entitled to a bigger piece of it. They watched it and worked on it.

The most remarkable thing in this whole case—and I will say to you, ladies and gentlemen, Mrs. Rorke, Mr. Snider and Mrs. Sauident—suppose that the three of you and myself got together and we had a contract, and our contract said we are going to be partners, and the contract says we are going to go into the picture-financing business. That is our contract, and somebody comes along and says, "You people may have agreed to go into the picture-fi-

nancing business, or you may have agreed to get into a partnership to go into the building business, but we are going to file an answer and say "No, you are not in that business." Amazing isn't it? I [14] think you would be upset and I would be, and I am. Here we have Koch & Sons, this partnership between the four children, their business having started on January 1, 1942, on October 23, 1944, amended their partnership agreement, which is Exhibit 2 in this case, and this agreement says very plainly, "The said partnership business will, in addition to engaging in those activities referred to in the existing partnership agreement, engage in the business of financing motion picture productions, either by direct participation in such productions, by way of stock investments or loans to motion picture producers, or in any other form of financing the parties may mutually agree upon between themselves."

Here these people have a solemn contract with all four of their names on it, back in 1944 drawn up, way before the year 1947, in which they say, "We partners, in addition to being in the luggage business, we are going to branch out and go in the big business of motion picture financing. This is our business."

Lo and behold, the only question raised in this case by the Government really, the only thing they deny is, we are in the motion picture financing business. That is the only thing you are called upon to pass upon in this case. Were we or were we not? I say again, if you and I had such an agreement, if Mr. Snider had such an agreement, Mr. Phipps had such

an agreement, and somebody else has denied it and [15] you have to come to court and prove your case, you could see the position we are in. Of course, when you sue the Government you can't come in and sit down in a chair and win your law suit. We have the burden of proof. The plaintiff has to prove his case by a preponderance of the evidence. I believe the Court is going to tell you in this case that preponderance of the evidence is no difficult term. It merely means by evidence that when weighed with that opposed to it has more convincing force and in which it follows there is a greater probability of truth which lies therein. It is our duty to come in here and put on a case. We can't sit down and win the law suit. They have answered it and said we are not in the business of motion picture financing. We have to come in and prove that we had activities in that business, put in exhibits to show that we were so engaged. I know you won't be misled, won't be led by anything but a rule of reason. The evidence preponderates—that means if you have 10 pounds on one side and 10 pounds and one ounce on the other side, that the 10 pounds and one ounce preponderates over the 10 pounds. It is as simple as that.

In this case the evidence is clear. With all the stress, strain, and effort that they went through this entire year of 1947, and this money these people had tied up in that business, all their hopes and aspirations tied up in it, they were engaged in the business, and I say to you they could have [16] done one-tenth—one-tenth of what they did and still be regularly engaged in the business of financing mo-

tion pictures. They could have done one-tenth less than what they proved in this courtroom and still be engaged in the business of financing motion pictures, and it would not have mattered, ladies and gentlemen, in my opinion, whether any picture was ever made, whether any story was ever bought, whether any corporation was ever formed.

In that regard, you know about corporations. You call your lawyer and order a corporation just like you call your car dealer and order a Ford. Of course, that Ford is not going to drive itself. Somebody has to drive it. A human being has to drive it. It is not going to run without gasoline in the tank and that is the money you put in the corporation.

I believe counsel for the defendant will have a statement to make at this time and I will return with our rebuttal at some later time.

Thank you. [17]

## CLOSING ARGUMENT ON BEHALF OF THE PLAINTIFF

Mr. Fink: Those of us who have devoted our lives to the law must at times bow our heads in shame when we realize that in this very country of ours, before the courts of this United States, and perhaps only over a hundred years ago, however, people who were on trial were condemned to death for witchcraft only because attorneys were able to convince the people to believe evil when a half-decayed civilization would rather believe evil than good. I know, however, that we have selected you

people on this jury. I know that Mrs. Ernst, Mrs. Moses, Mr. Hamilton, Mr. Snider and the rest of you good people are not going to believe evil instead of good. You are not going to let evil make up for the fact that the defendant in this case has not produced one scintilla of evidence. With all the United States Attorneys' offices all over the country, with all the Treasury Department men and all the F.B.I., not one single bit of evidence of any kind that we could refute here in this case has been produced, not one iota.

An argument is made here in which everybody is a crook and everybody is evil. We start out——

Mr. Gillard: I am going to take exception to that, if your Honor please. I made no allegation of anybody being a crook or anybody being evil or anything else.

The Court: Proceed, counsel. [18]

Mr. Fink: Thank you, your Honor.

Everybody who testified in this courtroom was untruthful, that myself and Professer Schiller here are trying to slip something over, and when it is all said and done, ladies and gentlemen, when I told you the story about the law suit, just awhile ago, I forgot to tell you one thing, and that is that the lawyers such as counsel here who try many cases can argue anything, both sides of anything, no matter how right or how wrong. If you haven't got the facts, if you haven't got the truth, if you haven't got the right or the fairness, then you can't try the case; you try the counsel, you try the witnesses, you try to inject a poisonous venom of mistrust.

This is kind of routine and shameful, but I know that good people in this community, this world of ours, neighbors of my clients are not going to be misled into debliberate, unnecessary mistrust of anybody.

Counsel starts out and tells you it is the second crack at this case. You know, I have no quarrel with our system of government. I think it is the greatest system in the world, and if it was not, it is the best we know of. We don't know of any better system to administer things, and yet we can't say anything is perfect, can we? We know that in this country there must be, between individuals and corporations, a hundred million tax returns, or some such quantity, and they would fill up half this town if they were stacked in one place. [19] Some fellow in San Francisco or Washington sitting there looking at that pile of tax returns, claims for refund—and, by the way, who has had a lot of them that were not fair—there is no use kidding ourselves; there are people who would like to pay less tax rather than more—at a time when you have worked on stacks of those things, you get to the point where you distrust everybody and you get a frame of mind, which is human nature, that the Government is always right and the taxpayer is always wrong.

If we had not paid this tax in the first place, I do not think there would be any question of any law suit. They wouldn't sue us for the money. We paid the tax and they say, "Let them prove their case." That is what the counsel calls our second crack. This is our clear opportunity, ladies and gen-

tlemen. This courtroom has had many cases, it will have many more. His Honor will preside over them. Counsel has other cases. Some day I may have another case. But so far as the Kochs are concerned, this is their only case, their only chance to come before a jury of their neighbors to get justice.

When you start to nail up a box, ladies and gentlemen, sometimes you can ail it down with one nail. Counsel said when I picked up the agreement which says, "We are agreed that our business is the picture business," he says Mr. Fink believed that—and I do, by the way—he said, "Why did he [20] put in any other testimony at all?" The story is, ladies and gentlemen, that even though you can nail a box down with one nail, any lawyer knows you might as well put a few more nails in it and make it good and tight.

Counsel contends that you have a non-business bad debt if it arose from the situation that is only a casual or an isolated transaction, and I think His Honor will tell you that that is the law. If a transaction is an isolated thing, separate and apart from your business and only happens rarely, an isolated transaction, it is not a deductible loss under, the theory we have taken, so that it becomes a matter of importance to look into other things, and other things are proper to be proved, other nails we can drive into this box to nail it down.

We can show we had activities, we can show it was not just isolated; we had activities, spent time and money in connection with the picture business to show we were in the business of financing motion

pictures. By the way, we did not produce any pictures and do not claim that; we say nothing about producing. We are not actors, directors or writers, we wouldn't know how to paint a set or stage. We are financing picture ventures. That is how we got hooked, stuck.

So that in addition to the obvious evidence in this case, we have the right to drive these additional nails by proving we spent time on other deals. Whether a deal was ever [21] concluded or not, does not make one whit of difference in this case. The question is, did we spend time and effort on it? That is all. Nothing more.

I believe His Honor is going to tell you—I am not sure, but I believe the instruction will be, if you listen for it, you will hear that you may consider the amount of time spent. Spent where? In the business of financing motion pictures. When you start financing something that was not there—this is not financing U. S. Steel Corporation or Standard Oil Company. This is financing companies that were never there to begin with. You have to start somewhere. We have to prove that we were in business, that among other things, when we were getting into it, we were actively engaged in trying to finance pictures and spent our time on it. That is all. Simple.

He talked about Frank Farilla, for example, the changing of books, making erasures. The only think that whole transaction was offered for was to show the trouble Maury Koch or the Kochs went to to borrow money even for this picture financing. That is all they came in for in the first place. If Maury

had borrowed the money from John Jones or from any one of you ladies and gentlemen and spent time borrowing it, he got it. Of course, it came in on checks signed by Frank Farilla, and the books show that later on Maury said, "Don't do that. I owe Frank the money." So they changed the book to show it was Maury's money. It is that simple. It doesn't mean anything. [22]

But it does mean this, that not only were these people trying to finance moving pictures in the year 1947—and, by the way, I have not proved with respect to other years, we all know the time in question, 1947, the transactions that had something to do with that year. The only thing that $15,000.00 Frank Farilla deal does is to give you additional proof that not only did they use every dime they had, but they went out and begged and borrowed everything they could for this business. That is all that deal was all about. And here the cross-examination and the insidious insinuations is a little bit disturbing, ladies and gentlemen. I hope you will bear with me on that. I am not very much persuaded by this argument that we should have deducted the loss in some way.

Our loss on Copacabana was $75,000.00. That does not mean that $75,000.00 is in tax money. You split that $75,000.00 between the seven people and you get $7,500.00 per person, and then you have to take it in your tax bracket. If you are in the 20% bracket, you get 20% back. We are not trying to get $75,000.00 from the Government, you understand that. That does not mean our taxes would be af-

fected to that extent. Only a small fraction of that. So it is not the most tremendous amount of money involved in this suit, but there is a principle involved. Any time an American citizen in your community has five cents coming, he is entitled to it [23] and he should have it. That is justice. That is the justice that we live and die for.

Counsel spoke about me—I guess I should not include Professor Schiller in this remark—we are like a destroyer laying down a smokescreen concealing everything. If I have concealed anything from you or attempted to take advantage of any situation under the sun, please forgive me because it was not intentional, and I think I can say without apology that every person who took the witness stand in this courtroom were good people. Let us not condemn anybody because they love Maury Koch. By the way, Maury Koch, super-salesman, as counsel makes him out, is probably a good salesman because of one thing. He is a very simple, straight-forward man of very simple words. He does have a little trouble expressing himself, but he is the kind of person I trust, you trust and people trust, because he is the simple kind that tried to explain himself as best he can. He wants nothing except what is his and what belongs to his sister and brothers. They have fought side by side for a long time and they are again here. They are finally in the courtroom.

Counsel said the contract says—I don't quite follow him—but for some reason Maury Koch was doing things beyond the contract; therefore it is not partnership business. The contract says all the

assets of the partnership are available for the picture business. I think His Honor will tell you the [24] act of one partner is binding on all the partners. There is no question about that. You use a contract one way and then use it just the opposite. I don't know what he is talking about. But I believe the Court's instruction on the law will tell you one partner's acts is the acts of all the partners.

He talked about Hill of the Hawk. The partnership didn't have the money. Of course, Mr. Koch told you they didn't have the money, he put the money up, sold out a couple of years later, got the money back and that was the end of that. But no matter what he did in the partnership business, it is covered by the contract, the partnership contract of the parties. Whether he invested more money than any other person or less money than any other person, of course, he did it for all of them. I don't doubt for a minute he would not be in this business on his own behalf, but that doesn't make any difference. We are going to show the various activities. This is not a case where he wanted and bought some stock in U. S. Steel Corporation, which would be an isolated transaction. This was a business. You start something where there is nothing. You go along with it and provide the financial management. You can have all the creative people in the world but somebody has got to say to them, "You got the money. I will be responsible for this," and that is what the Kochs did. I don't see how counsel can sneeze at that million dollars from the bank. There was the $50,000.00 for Producers' [25] Finance

Corporation, which was organized by the Kochs through their lawyer with some dummies on the Articles. I don't see how we can overlook anything when these people spent money or the expenses borne by the partnership through all these transactions over the years.

Maury Koch's time was available. I think counsel has made that point, anyhow. His time was available to the parnership and the partner gave his available time. They had the right to use it. They gave this valuable time to this business. As far as whether or not he was engaged regularly in the business, ladies and gentlemen, I am a lawyer, and if I never won a case, I am still in the business of being a lawyer.

I will tell you something else. If I open my business this morning and never had a law suit or a client, I'm still a lawyer. You don't have to win law suits for clients to be successful. The question is, "What are you spending your time at? Is it a business?" That is a plain, ordinary term. You are either doing business or you are not doing business. It is just that simple.

Counsel said the letter, Exhibit 34, is inconsistent. Maury Koch was not writing a letter to counsel or the Judge. He was not trying a law suit when he wrote this letter. He wrote to his lawyer and he said—by the way, if anybody ever had an agent in a lawyer, he knows a lawyer is always his agent, but it is not a question whether somebody is your agent or not, [26] the question in this case is, if somebody does something for you, it is just like

your own activity. In other words, if you have something done, it is like you did it yourself. If Maury Koch sends me $25,000.00 and says, "Buy a story," it is like he bought it himself, like William Koch bought it, Beck bought it or one of the other Kochs, and when he writes me a letter, he was not preparing for any law suit. Don't believe for a minute because something stands in the name of one partner, it does not belong to all. That is ridiculous and the contrary to every bit of law under the common law since the time of William the Conqueror.

He talked about the $8,000.00 that came from Producers' Finance Corporation which, of course, Koch put into Producers' Finance Corporation. He put $60,000.00 into that. All these things, whether he did or whether he did not, are not important. The Kochs spent their money, they spent valuable time. They were looking for deals they could finance in picture ventures. They organized corporations. They set up deals to get things started. They tried and tried and they were successful in a few things. They at least made a picture in Beacon, though they lost their money. They made 30 or 40 training films for the Government. They bought a wonderful story and other things. Like any other experimentation or any other thing where you are dealing with ephemeral ideas, you have to capture them and get them together. There are a lot of failures, [27] but they were activities. That is all.

Did they just go down and write a check out or did they have activities? If all a man did was write a check out once in his life on investments from

surplus funds, obviously that is not a business. But if he kept some degree of activity going and made an effort to spend money and time, then he is in the business. Doesn't that appeal to your good common sense?

The Court: You have five minutes, Mr. Fink.

Mr. Fink: I don't know, counsel seems to think that these people got to the Pacific Bank here in San Francisco by some kind of osmosis or something. The bank knew nothing about the picture business. San Francisco was removed from the scene. The only reason that the bank made that loan—you know the reason—they trusted the Koch family. That is all. They wanted to hear about Jack Chertok, not about corporation names, because, frankly, in this whole business corporations don't do a thing. It is the people that you have to trust. It is the character, the credibility of those people. I will tell you something, ladies and gentlemen. Any time you find a San Francisco bank trusting somebody for a million dollars, you can trust them, too. When you have a picture going into million dollar deals, do you think that they would trust these Kochs if they were exaggeraters and purveyors of untruth? If you don't trust any of us, if I am a charlatan, Professor [28] Schiller is a charlatan, and if every witness who took the stand is a charlatan, the evidence is here in black and white. The whole situation itself is more than adequate to establish that the answer is yes to the interrogatory you are going to have. If you didn't believe any of us—let us remember one thing, that the great big,

wide arms of the law—you have had this case a long time, have not been able to bring in one single thing to refute one single thing to this case. Everybody has a right to have a lawyer, including the Tax Department, and every lawyer's duty is to come into court and argue his case for his client. Of course, we sometimes forget we are officers of the court and are supposed to make statements based upon facts and not just try to inject the evil and disbelief where the world should be good, and we hope it is. I believe it is good. I believe you people are good. But I believe when you go into that jury room and you deliberate in this case, it is not going to take you very long to put "yes" down on that question that is going to be handed to you. The Kochs were engaged in the business of financing motion pictures. It doesn't say "producing"; it says "financing." I know when you retire to the jury room you will deliberate the same just verdict that you would expect other jurors to deliberate for you if you were on trial in this type of case.

I do want to thank you for your attention and time in sitting through these four days of trial. [29]

The Court: We will take a recess at this time until 1:15 this afternoon. That is a little unusual time, and I want everybody to remember it and be back here so we can start at that time.

You are still under the admonition not to discuss the case or form or express an opinion on it until it is finally submitted to you.

(Whereupon a recess was taken until 1:15 o'clock p.m. this date.) [30]

## ARGUMENT OF MR. GILLARD, ASSISTANT UNITED STATES ATTORNEY, TO THE JURY ON NOVEMBER 30, 1956

Mr. Gillard: Ladies and gentlemen of the jury, the normal course of closing a civil case of this type, as indicated to you by Mr. Fink, is for the plaintiff to open the argument and for the defendant to respond; and then for the plaintiff to close. The plaintiff gets the last word. He gets the opportunity to leave the last impression with you, and he hopes the best impression in the case, and the reason for that is because the plaintiff has the burden of proof.

When you talk about burden of proof, you have to understand that what is happening here is that an individual—let us forget about the Government for a minute because that is not important in your thinking—an individual says to you, "You owe me $5.00," and you say, "No, I do not owe you $5.00." And so you go to court. He gets on the stand and he says, "That man owes me $5.00," and that is all. You get on the stand and you say, "No, I don't owe him $5.00," and that is all the evidence there is. How would a jury decide that case? Only by virtue of knowing that the plaintiff is making the claim and has the burden of proving that the money is owed to him can you reach a satisfactory conclusion to that question, and if you say that the evidence is perfectly even, that there is no reason to believe or disbelieve one party or the other, it is a complete stand-off. Under those circumstances the judgment

cannot be for the plaintiff. So the plaintiff has the burden of proof, and that means proving to you by the preponderance of the evidence admitted in the case that they are right in their contentions, that they are entitled to the sum of money that they are claiming from the defendant, the Government.

In this case, and the Court will so instruct you, I believe, there is a presumption that the Commissioner of Internal Revenue's determination is correct. You see, the plaintiff already had one crack at this case. He filed his claim for refund with the Commissioner of Internal Revenue and the Commissioner denied it.

Mr. Fink: Your Honor, I am going to enter an objection.We have not tried this case before. This is a law suit in itself.

The Court: This is the first time the case has been tried and counsel is correct. A claim has been filed.

Mr. Gillard: I will amend the word "case" and say "matter." In connection with this claim for this deduction, the matter has been presented previously by the plaintiff to the Commissioner of Internal Revenue, and contrary to what Mr. Fink told you, what the Commissioner of Internal Revenue said was, "No, you do not have a business bad debt. You have a non-business bad debt," and the Court will instruct you, I believe, [2*] that what a non-business bad debt means is that the parties were entitled to take their losses in accordance with the provi-

***Page numbering appearing at top of page of original Reporter's Transcript of Record.**

sions of the Internal Revenue Code providing for losses in the same manner as for short-term capital gains, and in denying the claims made by plaintiff, the Commissioner of Internal Revenue allowed each one of these plaintiffs on their tax returns for 1947 a deduction of $1,000.00. That is the short-term capital gain provision. The Commissioner of Internal Revenue said, "You have taken your loss. It is a normal kind of loss that you would get by making your investment and losing it. You are entitled to this provision in the Internal Revenue Code which makes provision for that kind of loss. Each of you can take $1,000.00 for 1947 off your income, and you can take $1,000.00 off your income for each of the succeeding five years. That is the issue before you, as to whether or not that determination by the Commissioner of Internal Revenue is correct or whether the plaintiff is correct, that he is entitled to a different kind of tax treatment for the loss, which is admitted, which would allow him to offset it against his total income rather than $1,000.00 per year as I have indicated for a total of six years.

Mr. Fink also made some reference to the solemn contracts of the parties, which is Exhibit 2 herein, and he said to you, "If some of the jurors and I had entered into this contract, and we said we were going to engage in this business, and then [3] the Government came along and said you were not in that business, you would be surprised, you would be amazed, you would be insulted."

The answer to that proposition is two-fold, ladies and gentlemen. If Mr. Fink really believed that all

there was to this case was this contract that the parties entered into, and that in and of itself and by itself was sufficient to sustain the claim, he would have put that contract into evidence and rested, period. But obviously an agreement to do something is not doing it. You heard, for example, the questions directed to the attorney, Mr. Grupp, on the stand by the Court, and he explained what happened in the incorporation. The Articles of Incorporation are also a contract. They are filed with the Secretary of State but they just sit there. There is no business being conducted at that time. You have to do something in the future in order to be in business. The fact that you say to yourself, for example, "I am going to go into the motion picture business," that does not put you in the motion picture business. The fact that you and I together say, "Let's go into the motion picture business," doesn't put us into the business. You have got to do something to be in business, and that is why Mr. Fink did not just put this contract in evidence and rest. It does not have the force and effect that he maintains it does have. It is just an indication of what they desire to do in the future. The [4] question is, What did they do in the future?

The third thing that strikes me about Mr. Fink's opening statement to you is a thing which has been peculiar throughout this entire case. It seems to me it is more like a smoke screen that a destroyer lays down to hide the real issues, in that case the target, in this case the real issues in the case. He talked to

you in grand and glowing terms about the motion picture business. He talked to you about getting the story, getting the stars, getting the director, studios, cameras, officers, staff and ideas. He talked about the resale of the picture. He said it was a business of experimentation. Ladies and gentlemen, the Kochs were not in the business of experimentation. The Kochs were not in the business of securing stories or stars, studios, cameras or officers. That is the motion picture business, and this entire case and most of the evidence that has come from the witness stand and almost all Mr. Fink's argument has been directed to deciving you as to what the issue in this case is. The issue is not whether the Kochs are in the motion picture business; the question which will be submitted by the Court for answering is, "Were the Koch family regularly in 1947 engaged in the business of financing motion picture productions?"

Now, if the Kochs had wanted to be in the motion picture business, their partnership would have provided something like the Articles of Co-partnership of Ambassador Pictures Corporation, [5] which say, "The purpose for which this corporation is formed is generally to engage in creating, photographing, manufacturing, exhibiting, exploiting and otherwise dealing with respect to motion pictures."

Or even it would have been the same as the Articles of Partnership between Hirsch and Sebastian: "It is the purpose of the parties to hereby form and create a general partnership for the purpose of engaging in the business of producing mo-

tion picture photo supplies by use of partnership-owned means, etc."

But that is not what the Kochs were doing, ladies and gentlemen. That is not even what they intended to do. The said partnership business will, in addition to the luggage business, engage in the business of financing motion picture productions either by direct participation in such productions, by way of stock investments or loans to motion picture producers, and therefore, pursuant to those Articles of Partnership, the question the Court is going to submit to you is, Were the Kochs in the business of financing motion pictures? Not were they in the motion picture business, a very limited phase of that whole operation. And so what you have seen in this case is an attempt to give you this big broad picture of what the motion picture business is and to show Mr. Koch moving around and talking to all these people and saying, "Well, he must be in the motion picture business." But that is not the question. [6]

You will recall I asked Mr. Koch on the witness stand, "And all of your activities were under and pursuant to the authority contained in your partnership articles?"

And he said, "Yes." Ladies and gentlemen, anything that Mr. Koch did that was in excess of the authority contained in these articles of partnership was unauthorized, and the Court will instruct you that only the activities of Mr. Koch which were authorized under the partnership articles can be considered to be partnership business. You cannot have an agreement to do one thing and have a man

go out and do something else and bind you. If you have agreed with another individual to sell something, and that is all, he can't bind you by going out and making a contract to buy something else. You would not be bound by that.

In this case Mr. Koch was authorized to finance motion pictures; that is all, by stock participation or direct loans. That is his only authority. Anything he did beyond that was beyond the scope of his authority and not binding upon the partnership nor of benefit to the partnership.

Mr. Fink also made a very moving statement with reference to one-for-all and all-for-one. I am going to get into that later, but preliminarily I am going to call your attention to the fact that with reference to the Ambassador Pictures Corporation, Mr. Maurice Koch invested his own money. He said if you will recall, from the stand, the partnership did not [7] have any money and he invested his own money. When the assets he had acquired in that fashion were sold, he got the money back and put it in his pocket. "All-for-one and one-for-all"—maybe so, but that is an example of the fact that everything Mr. Fink has told you is not exactly true. To find out what the evidence is which you should properly consider to determine the question the Court is going to submit to you, "Was H. Koch & Sons in the business of financing motion picture productions," you should look at these facts.

The loss that was incurred in Copacabana was admittedly financed by the partnership. It was admittedly an investment in that film and it was

admittedly lost. The reason why you have had all this other evidence and this other testimony, in addition to the Copacabana affair, is because the plaintiffs realize that that one transaction, standing by itself, is insufficient for you to find that they were regularly engaged in that business of financing motion picture productions. You can't reach into your pocket and make an investment in one instance and that is all, and come to the conclusion that you are regularly engaged in business, because, one, a discussion does not constitute a business. It is an isolated investment and that is all it is. Therefore, in order to try to buttress their case and to show that this one transaction was something other than it normally would be, they tried to produce in here other evidence to show that by virtue of other activities, [8] they were engaged in the business of financing. That other business, then, would reflect upon what they did in Copacabana and allow you to come to the conclusion that they were in the business of financing.

Let's see how successful this other evidence is. You will remember that I asked Mr. Koch—this was towards the close of the cross-examination—"Mr. Koch, What other investments were made by H. Koch & Sons during the years 1946 and 1947?"

He said, "None," and he was very crest-fallen.

I said, "What other investments were made in 1946 and 1947 which resulted in the production of motion pictures?"

The answer again was "None." Ladies and gentlemen, you have here during the critical period the

Copacabana venture and that is all you do have. All the rest of these activities that were engaged in were either attempts or they were intents or wishful thinking of some kind, but, ladies and gentlemen, we submit to you that the intention or desire of the party does not put him into the business of financing any more than the intention or desire expressed in the articles puts them into business. You have got to do something tangible. The question is, "Did he finance motion picture productions in 1947?" You are perfectly at liberty in drawing your conclusion in that, and I think properly you should disregard in reaching you final conclusion the attempts which resulted in nothing. [9]

We had an awful lot of activity, as evidenced by the testimony from the witness stand, in things which never even resulted in any kind of financial deal at all. For example, all of Mr. Koch's talk about Monogram Pictures, Al Green and his six pictures, and the Fred Fisher story—we had an awful lot of talk about those things, but we had very little financing—in fact, we had no financing at all.

I think about half your time in this courtroom has been taken up with hearing about "The Hill of the Hawk." That was apparently a very fabulous thing, and every witness on the stand has talked about "The Hill of the Hawk," and again what was the financing on that?

Incidentally, "Hill of the Hawk," as you will recall, was dropped on the recommendation of Mr. David Sebastian. It was a little difficult, you will recall, for me to get him to admit on the witness

stand that he had made the recommendation. He tried to attribute the decision to Maury Koch. The other witnesses have all tried to help Maury Koch, and that was a logical thing for them to do, because they are closely associated with him. He tried to help him out by passing that over to him, but he finally had to admit that he had made the recommendation after reading the script, that it would not make a good picture, and Maury Koch got his money back. No financing.

The interesting thing about the financing side of that [10] is that this was not partnership money at all. Everything we have heard about the "Hill of the Hawk" and all the ramifications of it were not partnership business, not one single iota of it. Let me read you from the partnership agreement, paragraph 2(a):

"Moneys advanced by individual partners over and above the sum advanced by this partnership shall be first refunded to such partner individually.

"(c) The profit on such sum or sums advanced by any one or more partners over and above that advanced by the other partners shall belong to the individual partner or partners advancing the excess."

Maury Koch said when he got his money back from this "Hill of the Hawk" venture by the sale of the stock in Ambassador Pictures and the sale of the rights that he put the money into his pocket. It didn't go into the partnership. It just so happened that the money that he got back was exactly the same amount that he put in.

I pose to you the question, What would happen if Maury Koch had made $25,000.00 on it? Wouldn't it likewise have gone into his pocket under the partnership agreement? He was required to do so. The partnership had required and allowed him to take that profit all by himself. That is just speculative. It is not necessery for us to answer it, but it demonstrates this was Maury Koch's own affair, and I believe the [11] Court will instruct you that if you find in any one of these transactions Maury Koch was acting on his own individual behalf, that transaction cannot be taken into consideration by you in determining whether H. Koch & Sons was in the business of financing motion picture productions.

What did Maury do in this Ambassador Pictures thing? First, he took his own money, $7,000.00, and bought all the stock in the Ambassador Pictures Corporation. After he had all the stock, he took $10,000.00 more of his own money and loaned it to himself as sole stockholder in Ambassador Pictures. And then third—and this was rather cute—as President of Producers' Finance Corporation he loaned himself as sole stockholder of Ambassador Pictures Corporation, another $8,000. The cute part about that was, on direct examination Mr. Koch only put into evidence, or Mr. Fink got evidence through Mr. Koch only on the letter transmitting that $8,000.00 check. That was Exhibit 34. The letter on the letterhead of H. Koch & Sons, Luggage Manufacturing, was addressed to Mr. Max Fink:

"Dear Max: Enclosed you will find the last pay-

ment, which is $8,000.00, for the book 'Hill of the Hawk.' Sincerely, Maury."

Mr. Fink I think you ought to read the letter, counsel.

Mr. Gillard: I will read whatever part I desire, counsel, and you may read whatever part you desire.

But he did not put the check in evidence. The check was [12] enclosed, but he did not put it in evidence. You may recall I had to ask for the check on cross-examination. Mr. Fink finally produced it, and I asked Mr. Koch, "Was this the check that was mailed with Exhibit 34?

And he said, "Yes."

That check turned out to be a check of Producers' Finance Corporation. They did not want to let you know about that too easily, but the letter transmitting it was a letter on the Koch Manufacturing letterhead, not a letter from Producers' Finance, signed by Maury P. Koch, president.

So the total amount of money that Mr. Koch invested in this thing was $17,000.00, not $25,000.00 as they wanted you to believe in the first place.

Secondly, it was all Mr. Koch's personal money and not partnership money. Therefore, ladies and gentlemen, I believe under the instructions you will receive from the Court you can and should disregard all testimony with reference to Ambassador Pictures Company, with reference to the "Hill of the Hawk," with reference to any other activities Mr. Koch engaged in in that connection.

What other financing activities were there? There was only one other than that, and that was Pro-

ducers' Finance Corporation, which was formed, you will recall from Mr. Grupp's testimony, and the articles are in evidence, in about October of 1947. But the negotiations with reference to any activities [13] that that corporation was going to engage in were not concluded in 1947. As a matter of fact, very little had been done. One exhibit in this case which the defense put into evidence was a letter from Maury P. Koch, a letter from Producers' Finance Corporation by Maury P. Koch to Mr. Jack Chertok, setting forth in preliminary form their oral understanding prior to the time that anything could be reduced to formal agreement by their attorneys. At this time, in January 29, 1948, not one cent of money had been put into Producers' Finance Corporation by anybody, and that is why Mr. Koch had to say in response to my question, "No other money was spent by the partnership in 1947 and 1948, no money except the Copacabana loan was advanced during the years in issue in this suit," because, as I have just explained to you, the Ambassador Picture thing is out so far as the partnership is concerned. Mr. Koch admitted on the stand that in 1946 and 1947 the partnership advanced nothing except the Copacabana deal. The Court indicated to you that you could try and relate that back to the activities of 1947 the financing that took place in 1948 insofar as you believe those things are pertinent to the activities in 1947. However, there is one other very interesting thing about that and that is that Producers' Finance Corporation in 1948 lent some money to Apex Film Corporation for the

purpose of producing some Army training films. The witnesses have indicated some Army training films [14] were produced, but we do not know when they came out. So far as the record shows, they came out this year. We do not know. But the most interesting thing is that it was indicated by Maury Koch on the witness stand, indicated to you by Mr. Fink in his opening argument, that Maury Koch got a million dollars of financing for them in that connection. I think the Pacific National Bank would be interested in that, because my recollection is that Pacific National Bank advanced that money and the Pacific National Bank advanced it not to Maury Koch but to Apex Films Corporation. Maury Koch was not advancing in that transaction in any way. The loan was from the bank to them.

The other interesting thing about this, the most that could be said is that Maury Koch had had a hand in introducing Mr. Chertok to the bank, making a sufficient recommendation to the bank that they would be interested, and the most Mr. Koch is doing is acting as a broker. He is bringing two people together to see if they can't arrange a loan between them. Mr. Koch is not in the brokerage business. His business is advancing the money of H. Koch & Sons in motion picture productions. His business is not acting as a broker for somebody else.

Even if you would assume that that activity of his in 1946 and 1947 was a relevant and material thing as far as time was concerned, it would not be relevant as far as the business of H. Koch & Sons is concerned.

I think we ought to devote a little time to the witnesses [15] who appeared on behalf of Mr. Koch. First in order of appearance was Mr. Grupp. He had been his attorney for a number of years, an attorney who was deeply indebted to him and his family by virtue of favors given to him by Mr. Koch's father, so deeply indebted that for 20 years he worked for the Koch family and during all this period of time for H. Koch & Sons, particularly for Maurice P. Koch, for nothing—a man so deeply indebted that he worked for nothing. And if you can believe Mr. Grupp's testimony as to the amount of time he spent with Mr. Koch in these transactions, it comes almost to one-third of his time in each year, 1947 and 1948. Mr. Grupp, according to his testimony, spent one-third of all of his time in those two years for nothing. I think you can rightly say that there is an exaggeration somewhere in that testimony.

Secondly, Mr. Grupp is an attorney and he knows the difference between corporations and partnerships. He formed both of these for the Koch family. He drew up the Articles of Co-partnership and he drew up the Articles of Incorporation for Producers' Finance, and yet on the stand under direct examination he testified that all during the year 1947 he was acting for H. Koch & Sons as their attorney. But when the Producers' Finance Corporation was formed as a corporation, and he was counsel for that corporation, in all activities the corporation had he was counsel for the corporation and not for H. Koch & Sons. And you heard him admit to me

on [16] cross-examination that on the date of the incorporation he was counsel for Producers' Finance Corporation.

Then there was Mr. Sebastian. He is brother-in-law of Mr. Koch, and as such deeply interested in him. In addition to that, Mr. Sebastian had left a job which paid him a salary, I assume, with Columbia Pictures for the purpose of trying to make a living, and yet if you can believe his story, he worked hundreds of hours in conferences. He went over his time schedule also and it amounted to days, weeks and months, for nothing—for Mr. Koch for nothing. He said, "He paid me a little expense money," and he maintained during his testimony on direct examination that he was the agent for Mr. Koch—for nothing—and he maintained on cross-examination that he was the agent for Mr. Koch, again working for nothing. That is, he maintained that until I introduced in evidence the Articles of Co-partnership between himself and Mr. Hirsch, and you will recall that Mr. Sebastian became, I believe, the associate producer in Copacabana. Here is what the Articles of Co-partnership between Hirsch and Sebastian provide:

"It is contemplated by the parties hereto that the motion pictures may be produced by corporations specially organized for that purpose and which Hirsch & Sebastian, or either of them, may become an officer, director or employee. It is understood and agreed that the parties may act as such officer, director or employee of such [17] corporation, but all proceeds in the form of bonuses, salaries, or any

other thing of value which may be paid or turned over to either Hirsch or Sebastian as officer, director or employee shall be delivered forthwith to the partnership in accordance with the terms and purposes of this agreement."

Despite his conclusion that he was the agent for Mr. Koch, Mr. Sebastian was a partner of Mr. Hirsch and bound under the terms of this partnership agreement to act on behalf of Hirsch & Sebastian, and he worked for Hirsch & Sebastian, and even if he were employed individually by a corporation—and he was—that those profits, salary, would go into that partnership.

Ladies and gentlemen, he was not Mr. Koch's agent. He was an independent contractor. He has a mission to perform for himself. He had to leave. He had to get a job. One way he could get a job was to try to get Mr. Koch interested in putting some money into a deal where he could get a job as a producer or an associate producer, or whatever he was.

Mr. Eisenberg spent a long time in Hollywood. We do not know his relations with the Koch family. We presume inferentially that Hirsch & Sebastian, we have heard some indication that Hirsch & Sebastian were stockholders in Beacon Pictures Corporation. Mr. Eisenberg was hired by Beacon Pictures Corporation as a controller. There is some relationship and some close relationship between them and Mr. Koch. He was [18] hired as a controller. The controller is supposed to be there to find out that the moneys are spent properly that are avail-

able. Mr. Eisenberg in his eagerness to help Mr. Koch in this case abdicated his job as controller. Mr. Koch, he said, went over the figures on the budget, and on direct examination he said Mr. Koch made suggestions with reference to cutting down some sets, cutting out some dance routines, and if Mr. Koch had not done that, the picture would have gone over its budget.

First, wouldn't you assume that that would be the job of the controller? Secondly, on cross-examination I asked Mr. Eisenberg, Wasn't the budget less than the available moneys? And he said, "Yes." The budget was already below the available moneys, and yet he got up here in his enthusiasm, and again I do not blame him because you know and I know that Mr. Maury Koch is a personable and charming man, but he did a lot of selling on this witness stand. He is a salesman. He has done a lot of favors for these witnesses and they, to the best of their ability, are going to return it. I do not mean to infer that these men are deliberately misstating, but in their enthusiasm they went too far. The fact remains that the budget was less than the available moneys, and therefore it would have been impossible for Mr. Eisenberg to say that if Maury Koch had not cut these items out of the budget, the picture would have cost more than the amount of money available. So in his [19] enthusiasm of helping Mr. Koch, he went a little too far.

I say each of those three witnesses were very partisan witnesses, and you have a perfect right to view with spkepticism some of their exaggerations.

Mrs. Abel, the testimony she gave concerns a matter which is not going to be presented to you for decision, and so it is not important to discuss her except one thing is apparent. Here again you have a witness who is willing to go overboard for Mr. Maury Koch. At his direction she altered the partnership books—altered them, and came in here with a set of books and tried to reflect something that did not originally occur on those books.

The Court: Is this a convenient place to take a recess, counsel?

Mr. Gillard: Yes, your Honor.

(Recess.)

Mr. Gillard: Thank you, your Honor. The watch is for timing. Each side has been allotted a definite period of time in which to present what it hopes to be its enlightenment of the case, and according to my calculations I have about 20 minutes left.

The key and central figure in this case, of course, is Maurice P. Koch, and he obviously is a very likeable man. He is obviously a very jolly man. He is a salesman in the best sense of the word. His business is selling and, of [20] course, one of the things he was doing on the stand is one of the things he has devoted his life to, and that is selling, and his purpose in being here today was to sell his side of the story to you. The thing about it, however, is that he has lived with this experience for the past ten years, and as so often happens in our experiences, the further we get away perhaps from a given event, the more dim becomes the individual

details, and the broader becomes the outline and the broad aspects of it, and we tend to exaggerate not only the importance of events, but our participation in those events. To a man like Maury, affable, extrovert type, he would naturally place more emphasis on the pronoun "I" than was warranted by the original facts. It also make a better story. You know perfectly well a fisherman does not like to come home and say he caught a fish that was that long (indicating). It makes a better story to say the fish was that big (indicating). I think we have quite a bit of that presented to you in this case by Maury Koch.

You may recall, for example, on direct examination he went down and spent three weeks in Hollywood at the time Copacabana was about to be filmed. He went in there and he went over the budget, cut costs, he cut out sets, he cut out dance routines, he fired a couple of writers, he viewed the film, and after each day he made suggestions as to the cutting of the film. It is kind of odd almost to hear him say on [21] cross-examination that the film had a producer, a director, an associate producer, controller, property man, filming editors, and all the rest of those employees. But apparently, as I say, the story has been enlarged in Mr. Koch's mind—and I do not say this in any derogatory sense; it is a normal human tendency to enlarge our own activities, and I believe you can rightly find that there has been a great deal of exaggeration in this case. This exaggeration with reference to non-important details—and I say that because actually, although

Mr. Koch had a legitimate right to be in Hollywood —I mean, he was a substantial investor in Copacabana and as such he was interested in seeing what they were doing down there with part of his money —still, properly speaking, would you say that that was a necessary function or a proper function for him to engage in under the partnership articles which allowed him to invest or to lend money for motion picture production? He certainly was interested. He wanted to see what was going to happen to his money. But for him even to suggest that he is engaged in these other activities—even assuming he did—does not necessarily make it a legitimate function. You will recall the testimony of Mr. Eisenberg that the budget was less than the available moneys.

But for some of the more important evidence this tendency to exaggerate becomes critical. For example, Mr. Koch characterized almost everybody he came in contact with as his [22] agent. Everybody he talked to throughout this entire trial, from his testimony, he would conclude was his agent. Mr. Hirsch, Mr. Sebastian, Mr. Chertok, Mr. Green, Mr. Harry Fox, maybe even Mr. Max Fink. But, ladies and gentlemen, you do not create an agency merely by having Mr. Koch say, "He was my agent." An agency springs from a factual relationship, and in order to come to a conclusion that a given individual was an agent, there should be facts from which you can make up your own mind as to whether that agency existed. For example, under Mr. Koch's interpretation, if any one of you were

to go out and try to buy a piece of property, you would contact the broker, you would contact the seller, you would contact the title insurance company, you would contact the bank. All those people had individual roles to play in a given transaction. Each one is hired by either himself or some other person. They are drawn together for the purpose of making that transaction. But that does not mean that the seller of the property is your agent when you are buying. It does not mean the bank is your agent in that connection for that purpose. These are all independent people who have a job to perform, who were paid by others, not paid by you, and they are only drawn together as a principal in a transaction in which they are interested, and they are not working for you.

That came about, I believe, very clearly in Mr. Koch's characterization of Mr. Sebastian as his agent. I think I [23] have shown you very clearly that Mr. Sebastian was not Mr. Koch's agent. He was a partner of Mr. Hirsch, and all his activity was devoted to the Hirsch-Sebastian partnership and for the benefit of that partnership. Mr. Sebastian was not paid one cent by Mr. Koch.

How does Mr. Sebastian become an agent? Only because Mr. Koch said so, but you do not have to rely on Mr. Koch's legal conclusion that any individual was his agent. You should examine the facts for yourself and determine whether or not Mr. Koch has presented evidence of such a relationship—a form of employment, instructions to him, payment

to him, to indicate that every man he is talking about is or is not his agent.

Another classical example of Mr. Koch's characterization of others as being agents or connected with him in some fashion is in this same Exhibit 34 that I read to you awhile ago, or a part of it. Mr. Fink tells me to read the whole thing. In that letter—and Mr. Fink read the whole thing to you—he said, "Will you please send me some sort of letter advising me that the book is completely paid for and the property of Ambassador Pictures Corporation, of which I own all of the stock now, and, after all, I am responsible to the stockholders."

Mr. Fink asked him what he meant by that and he said, "my partners."

Of course, the letter on its face is inconsistent for he owns all of the stock. There are no stockholders. There is [24] one stockholder and that is Mr. Koch. But in the second place it shows the thinking of Mr. Koch in this thing.

Now, you may not want to blame him, or you may feel that even he did believe it. It is very possible that he did believe it, but he was in error, ladies and gentlemen. He was in error. His partners were not stockholders in Ambassador Pictures Corporation. He owned all the stock himself, with his own money, not the partnership money, and all the money that had gone into Ambassador Pictures Corporation was his own money, and he admitted that, so that his characterization of his brothers and sisters as stockholders was erroneous. You do not have to accept his characterization of that any more

than you have to accept his characterization of all the rest of these people as being agents, unless you are satisfied from the evidence that he has demonstrated to you by facts an employment agreement, a delegation of authority, payment to him for the services. The facts alleged make it an agency relationship. If that is absent from the case, these people were not his agents.

We can only point to a few examples like that where we have demonstrated that the conclusions Mr. Koch reaches on the stand were erroneous, but from the demonstrated fact that he was in error you can ask yourselves the question, "What about all the rest of these facts he has told you about concerning which there was no possibility to rebut because the [25] witness was not available?"

Mr. Chertok is in New York, somebody else is dead. You can weigh his testimony as a whole, ladies and gentlemen of the jury, and if you find him wanting in any material respect in his testimony, you are entitled to disbelieve the rest of his testimony.

He also spent a great deal of time in generalization. As a matter of fact, Mr. Fink in his opening statement to you spent a great deal of time in generalization. The whole theory of the plaintiff's case here is to try to snow you under with motion picture business and weigh you down with so many facts and so much evidence that you can't see the issue in the case. You recall Mr. Koch testifying in response to a question by Mr. Kink, "I spent an awful lot of time trying to make deals, tie deals to-

gether, telephone conversations, making contacts with this fellow, talking to Hirsch, talking to Sebastian." What do you think of that kind of testimony? Feathers. What can you grab into with that kind of testimony which will convince you of any real thing about this case? That kind of testimony is meaningless.

You will remember during the course of this time I objected upon numerous occasions. It was never followed up. The preliminary matter was gone into:

"Did you have a discussion with Mr. Hirsch?" Yes, he did. He met Mr. Hirsch on eight separate occasions. [26]

"How about Mr. Sebastian?" The same thing. He met him at the Friars' Club, he met him here, he met him there. And what happened? Nothing. He just told you he had discussions and that is all. Is that the kind of evidence you are going to accept in this case to satisfy you that he was in the business of financing motion pictures? Mr. Koch is a very energetic man. The evidence clearly shows that he is not only energetic but in some fields he is very capable. He was the boss, the managing partner of H. Koch & Sons. During the year 1946 he was also the only salesman in that organization. That was a business grossing in sales in excess of a half million dollars a year, and he ran the show, ladies and gentlemen. He ran the whole show. He not only did all the buying, getting all the merchandise, arranging for all the financing, securing all the materials, running the place, but he did all the selling, too. $550,000.00 worth of sales.

In addition to that he was a fifty per cent partner with Mr. Farelli in a merchandising venture in which he devoted a considerable part of his time in 1946, and from which he made a substantial profit, as you noted from his income tax return. In addition to that, at the end of 1946 he was engaged in purchasing a glass fibe plant, which I gather from the testimony is the foundation and basis for the present Koch business, the manufacture of fiberglass luggage and containers. So he was busily engaged in tangible things which you have in [27] front of you and which you can see.

Stacked against those tangible evidences of the things which occupied his time, he says he spent 30 per cent of his time in the motion picture business. Ladies and gentlemen, I think you will find that also is an exaggeration, and I think you are entitled to believe it was an exaggeration.

Now, if you disregard all the generalities in the case, which are feathers, and which you cannot put your finger on, if you find that these agents were non-existent, that each one of these people he is talking about had his own business to conduct, that he was drawn into it, came in contact with Mr. Koch because they had something to sell, something to get out of him; they were acting on behalf of themselves or their client and he was acting for himself. This was his business. If you do not attribute all their activities—and this has been the main thrust of the plaintiff's case, ladies and gentlemen of the jury—Mr. Koch has tried to graft onto himself and to take credit for everything that every-

body else did in the motion picture industry. I do not think you are going to swallow that story. Those people are down there to make a living for themselves. They may be a happy family, everybody in Hollywood, or they may not. But you can rest assured they are down there to make a living. They had to work for themselves. Mr. Koch did not pay them anything. So if you disregard all the woof about these agents, and if you [28] disregard all of these attempts which never materialized into fruition—and that is all they were—they meant no more as far as the main issue in this case is concerned than the intent expressed in the partnership agreement, "I will enter the motion picture financing business," and he didn't do it—if those things are left out, you wind up with the case exactly where you started, with the very first thing, Copacabana. There is nothing else in the case but Copacabana. I have demonstrated to you, I believe, that that is the only thing into which there was any money put in 1946 and 1947. It was the only picture that was produced during that period of time. It was the only transaction in which the Koch partnership put any money in that period of time. The Ambassador Picture Corporation is out completely because it is his own individual baby and not the partnership's, and also the transactions in connection with that, including "Hill of the Hawk"—and, as I said to you, about half of your time has been spent listening to that "Hill of the Hawk" transaction, and it does not contribute one iota to this case as far as your consideration is concerned. That was Maurice

P. Koch's private baby. The partnership had no part of it.

The last thing and only thing left was Producers, in which nothing was done in 1947, no money was put into it in 1947, and in addition to that, even if you attribute to Maurice P. Koch and through him the partnership some activity [29] in 1947 for Producers, you have to remember this, that it was a corporation. You are entitled to believe and to find that when a man elects to form a corporation and do business through a corporate form, then those things that are done by that corporation are the business of the corporation. H. Koch & Sons, the partnership, was to be in the business of financing motion pictures. Ladies and gentlemen, that means H. Koch & Sons. It does not mean Producers Finance Corporation, and the very little bit of activity in this case which took place and that started at the end of 1947, and this tiny amount of it was the activity of Producers' Finance Corporation. I asked Mr. Koch on the witness stand and he told me, "Yes, everything I did from the date of the formation of that corporation, I did as the president of Producers' Finance Corporation, not as a partner of H. Koch & Sons," ladies and gentlemen, not as a partner of H. Koch and Sons. He did it as president of Producers' Finance Corporation. He gave you the answer on the witness stand: "I acted as president of Producers' Finance Corporation." That is not H. Koch & Sons.

We submit to you, ladies and gentlement, the finding of the Commissioner of Internal Revenue,

who was a duly and regularly appointed executive officer of the Government, sworn to administer Internal Revenue Laws, that his findings that this was a non-business bad debt, and under the Internal Revenue Code provisions that each of the seven parties to this action [30] were entitled to take a deduction of $1,000.00 per year against ordinary income for each of six years, was the correct conclusion in the case, and we submit to you that based upon the only fact remaining in the case, to wit, the Copacabana investment, we submit to you that by virtue of that one investment that you cannot find that H. Koch & Sons were in the business of regularly financing motion picture productions.

I thank you very much for your time and attention.

[Endorsed]: Filed July 18, 1957. [31]

---

[Title of District Court and Cause.]

## CERTIFICATE OF CLERK TO RECORD ON APPEAL

I, C. W. Calbreath, Clerk of the United States District Court for the Northern District of California, hereby certify the foregoing and accompanying documents and exhibits, listed below, are the originals filed in this Court in the above-entitled case and constitute the record on appeal herein as designated by the attorneys for the appelant, Except the Reporter's transcript of evidence and proceedings is not included for the reason it has not been delivered to this office for filing:

Excerpt From Docket Entries.

Complaint.

Answer.

Special Verdict.

Order Denying Motion for Judgment Notwithstanding Verdict and to Set Aside Special Verdict.

Findings of Fact and Conclusions of Law.

Judgment on Special Verdict.

Findings of Fact and Conclusions of Law Tendered by Plaintiff.

Findings of Fact and Conclusions of Law Tendered by Defendant.

Notice and Motion for New Trial.

Memorandum in Support of Motion for New Trial.

Order Denying Motion for New Trial.

Plaintiffs' Requested Instructions to Jury.

Defendant's Requested Instructions to Jury.

Notice of Appeal.

Appeal Bond.

Memorandum of Plaintiff re Effect of Presumption That Assessment of Commissioner of Internal Revenue Is Correct (tendered in open court).

Order Extending Time to Docket Record on Appeal.

Order Extending Time to Docket Record on Appeal.

Appellants' Designation of Record on Appeal.

Plaintiffs' Exhibits 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 10-b, 11, 12, 13, 14 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35 and 36.

Defendant's Exhibits A, B, C, D, E, F, G, H, I, J and K.

In Witness Whereof I have hereunto set my hand and affixed the seal of said District Court this 17th day of July, 1957.

[Seal] C. W. CALBREATH,
Clerk;

By /s/ MARGARET P. BLAIR,
Deputy Clerk.

---

[Title of District Court and Cause.]

## CERTIFICATE OF CLERK TO SUPPLEMENTAL RECORD ON APPEAL

I, C. W. Calbreath, Clerk of the United States District Court for the Northern District of California, hereby certify the foregoing and accompanying documents, listed below, are the originals filed in this Court in the above-entitled case and constitute the supplemental record on appeal herein as designated by the attorney for the appellant:

Reporters' Transcript of Trial, November 26, 29 and 30, 1956.

In Witness Whereof, I have hereunto set my hand and affixed the seal of said District Court this 22nd day of July, 1957.

[Seal] C. W. CALBREATH,
Clerk;

By /s/ MARGARET P. BLAIR,
Deputy Clerk.

[Endorsed]: No. 15645. United States Court of Appeals for the Ninth Circuit. Harold M. Koch, Bessie Koch, William L. Koch, Rose Koch, Rebecca Koch Abel, Maurice P. Koch, and Daisy Koch, Appellants, vs. United States of America, Appellee. Transcript of Record. Appeal from the United States District Court for the Northern District of California, Southern Division.

Filed July 17, 1957.

Docketed July 27, 1957.

/s/ PAUL P. O'BRIEN,
Clerk of the United States Court of Appeals for the Ninth Circuit.

In the United States Court of Appeals
for the Ninth Circuit

Civil No. 34762

HAROLD M. KOCH, et al.,

Appellants,

vs.

UNITED STATES OF AMERICA,

Appellee.

## STIPULATION AND ORDER

It Is Hereby Stipulated that the exhibits designated on appeal in this action may be considered in their original form without printing, and without prejudice to either party to print any exhibits as an appendix to the brief to be filed.

Dated: August 6, 1957.

/s/ LEON SCHILLER,
Attorney for Appellants.

LLOYD H. BURKE,
United States Attorney;

By /s/ MARVIN D. MORGENSTEIN,
Assistant United States Attorney, Attorneys for Appellee.

/s/ ALBERT LEE STEPHENS,

/s/ RICHARD H. CHAMBERS,

/s/ FREDERICK G. HAMLEY,
Judges of the United States Court of Appeals for the Ninth Circuit.

[Title of Court of Appeals and Cause.]

## AFFIDAVIT OF LEON SCHILLER IN SUPPORT OF STIPULATION AND ORDER RELATING TO PRINTING OF EXHIBITS

State of California,
City and County of San Francisco—ss.

Leon Schiller, being first duly sworn, deposes and says:

I am one of the attorneys for appellants in the above-entitled action. In the trial of said action, appellants offered in evidence thirty-seven exhibits, and appellee offered in evidence eleven exhibits. Many of the exhibits are quite lengthy. At this time it is not feasible for appellants to extract from these various exhibits the portions of each exhibit to which reference must be made in the briefs to be presented in this appeal. To print all the exhibits in their entirety would entail a tremendous printing cost to appellants. At the time briefs are filed with the court, counsel can distill and extract from the exhibits the portions of particular importance to the court and print them in the appendix to the brief. The granting of the order by the court will result in a substantial saving in cost to appellants and will protect the rights of both appellants and appellee.

/s/ LEON SCHILLER.

Subscribed and sworn to before me this 7th day of August, 1957.

[Seal] /s/ NITA LAND,
Notary Public in and for the City and County of San Francisco, State of California.

[Endorsed]: Filed August 13, 1957.

---

[Title of Court of Appeals and Cause.]

## STATEMENT OF POINTS UPON WHICH APPELLANTS RELY

The points upon which appellants intend to rely on this appeal are as follows:

1. That the Court erred in granting judgment for defendant.

2. That the verdict of the jury on the special interrogatory was contrary to all the evidence in the above cause and is not supported by the evidence.

3. That the Court erred in failing to grant a directed verdict in favor of plaintiffs.

4. That the Court erred in failing to grant motion for judgment notwithstanding the verdict.

5. That the Court erred in excluding evidence, both oral and documentary.

6. That the Court erred in admitting evidence, both oral and documentary.

7. That the Court erred in failing to give necessary instructions to the jury and in giving the jury instructions contrary to law.

8. That plaintiffs were not accorded a fair trial and due process of law.

9. That plaintiffs' cause was prejudiced by reason of prejudicial misconduct of counsel for defendant.

10. That the Court erred in permitting comment upon, as well as making comment with respect to, matters not within the record in the instant cause and which prejudicially affected the trial and decision in this cause.

11. That the Court erred in granting motion for directed verdict with respect to the plaintiffs Maurice B. Koch and Daisy Koch; and likewise thereby prejudiced the rights of all other plaintiffs.

12. That the Court erred in making findings of fact which are not supported by the evidence and which are in fact contrary to all the evidence in the above cause.

13. That the Court erred in its findings and determination that certain stipulations were entered into which were, in fact, not entered into.

14. That the Court made erroneous conclusions of law.

15. That the Court erred in its judgment rendered in the above cause.

16. That the Court erred in failing to grant a mistrial in the above cause and erred in its failure to grant a new trial.

Dated: August 2, 1957.

MAX FINK,
LEON SCHILLER,

By /s/ LEON SCHILLER,
Counsel for Appellants.

Service of copy acknowledged.

[Endorsed]: Filed August 7, 1957.

No. 15645

# United States Court of Appeals

for the Ninth Circuit

HAROLD M. KOCH, BESSIE KOCH, WILLIAM L. KOCH, ROSE KOCH, REBECCA KOCH ABEL, MAURICE P. KOCH, and DAISY KOCH,

Appellants,

vs.

UNITED STATES OF AMERICA,

Appellee.

## Supplemental

# Transcript of Record

**Appeal from the United States District Court for the Northern District of California. Southern Division.**



Phillips & Van Orden Co., 4th & Berry, San Francisco, Calif.—12-20-57

No. 15645

# United States Court of Appeals

for the Ninth Circuit

---

HAROLD M. KOCH, BESSIE KOCH, WILLIAM L. KOCH, ROSE KOCH, REBECCA KOCH ABEL, MAURICE P. KOCH, and DAISY KOCH,

Appellants,

vs.

UNITED STATES OF AMERICA,

Appellee.

---

## Supplemental

# Transcript of Record

---

**Appeal from the United States District Court for the Northern District of California, Southern Division.**

Phillips & Van Orden Co., 4th & Berry, San Francisco, Calif.—12-20-57

# INDEX

[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in italic; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in italic the two words between which the omission seems to occur.]

## NAMES AND ADDRESSES OF ATTORNEYS

LEON SCHILLER, ESQ.,
105 Montgomery Street,
San Francisco, California,

For Appellants.

LLOYD H. BURKE, ESQ.,
United States Attorney;

LYNN J. GILLARD, ESQ.,
Assistant United States Attorney,
Post Office Building,
San Francisco, California,

For Appellee.

In the United States District Court in and for the Northern District of California, Southern Division

Civil Action No. 34762

HAROLD M. KOCH, BESSIE KOCH, WILLIAM L. KOCH, ROSE KOCH, REBECCA KOCH ABEL, MAURICE P. KOCH and DAISY KOCH,

Plaintiffs,

vs.

UNITED STATES OF AMERICA,

Defendant.

COMPLAINT FOR RECOVERY OF FEDERAL INCOME TAXES ERRONEOUSLY AND ILLEGALLY COLLECTED

Comes Now Plaintiff, Harold M. Koch, and for a First Cause of Action Against the Defendant Alleges That:

I.

This action is brought against the United States for recovery of federal income taxes erroneously, illegally and wrongfully assessed and collected under the internal revenue laws of the United States; it is brought pursuant to the provisions of U.S.C. Title 28, Section 1346(a) (1).

II.

This action is to recover income taxes paid for the calendar years 1945 and 1947. The plaintiff's income tax returns for said years were duly filed with

the Collector of Internal Revenue, First District of California, at San Francisco, California, which is within the Northern District of California, Southern Division of this Court. Plaintiff resides in San Francisco, California.

III.

At all times herein mentioned, Maurice P. Koch, William L. Koch, Harold M. Koch and Rebecca Koch Abel were partners doing business under the firm name and style of H. Koch & Sons.

IV.

During the years, 1945 to 1947 inclusively, and for the period prior to and subsequent to said years, H. Koch & Sons was engaged in the business of luggage manufacturing, motion picture financing and motion picture production.

V.

In 1946, a corporation named Beacon Pictures Corporation was formed for the purpose of producing a motion picture entitled Copacabana. In said year, H. Koch & Sons advanced $75,000 to said corporation as pre-production money in connection with a joint venture between H. Koch & Sons and Beacon Pictures Corporation for making said picture. In exchange for said payment H. Koch & Sons acquired an interest in said motion picture, which interest entitled the partnership to a share of the profits from said production. Said profits would be paid to said partnership and said $75,000 ad-

vance in fact be repaid only if the undertaking was successful.

VI.

The motion picture production was a financial failure and the entire $75,000 advanced by H. Koch and Sons was lost in 1947.

VII.

Said $75,000 loss was not claimed in the original partnership return filed by H. Koch & Sons for the calendar year 1947 because at the time said return was filed, the partnership had not been furnished with the financial and operating reports, statements and information which revealed that said $75,000 was lost in 1947.

VIII.

The original partnership return for 1947 reflected an ordinary net income of $19,223.18 whereas after deduction of said $75,000 loss the partnership had an ordinary net loss of $55,776.82 for 1947.

IX.

Said $75,000 loss was chargeable to the partners of H. Koch & Sons as follows:

| | |
|---|---|
| Maurice P. Koch | $18,750.00 |
| William L. Koch | 18,750.00 |
| Harold M. Koch | 18,750.00 |
| Rebecca Koch Abel | 18,750.00 |

X.

Plaintiff and his wife, Bessie Koch, filed separate returns for the year 1947, and did not claim any portion of said $18,750.00 loss on said returns.

XI.

On or about January 7, 1949, plaintiff duly filed with the United States Collector of Internal Revenue for the First District of California, an original claim for refund in the amount of $223.00, and on March 15, 1951 plaintiff filed an amended claim for refund for said $223.00 in connection with his 1947 income tax return which represented all of the income tax paid by plaintiff on the said return; said claims were based on the grounds that plaintiff was entitled to an additional deduction on his 1947 income tax return in the amount of $9,375.00 which was plaintiff's one half community share of his $18,750.00 chargeable loss on the aforementioned $75,000.00 loss. A copy of said original claim, marked Exhibit A, and a copy of said amended claim, marked Exhibit B, is attached hereto, and is incorporated by reference.

XII.

The Commissioner of Internal Revenue, through the office of the Regional Commissioner of Internal Revenue, notified plaintiff on September 10, 1954 that said $9,375.00 chargeable loss was a 1947 loss but that in his opinion said loss was a non-business bad debt and was therefore a capital loss and thus was deductible by petitioner in 1947 only in the amount of $1,000.00.

XIII.

Subsequently the amount of $107.00 was refunded to plaintiff on the basis said loss was a capital loss

and the balance of said claims in the amount of $116.00 was disallowed.

XIV.

Said disallowance of $116.00 was wrongful, erroneous, and illegal in that said loss of $9,375.00 was either a business bad debt, a loss incurred in the business of producing motion pictures, or a joint venture loss in the business of producing a motion picture, to wit, Copacabana, and therefore deductible in full by plaintiff.

XV.

No part of said sum of $116.00 erroneously retained by defendant has been repaid or refunded, and said sum together with interest thereon as provided by law is due, unpaid and owing to plaintiff from defendant.

Second Count

I.

Plaintiff, Harold M. Koch, Incorporates in This Second Count, All the Allegations Contained in Paragraphs I to X Inclusively of the First Count With the Same Force and Effect as Though Fully Set Forth Herein.

II.

In connection with his 1945 income tax return, plaintiff duly paid the income tax shown to be due by said return, to wit, the sum of $8,842.22.

III.

Plaintiff incurred a net operating loss for the calendar year 1947 in the amount of $6,592.72 which loss is allowable as a net operating loss deduction carryback for the calendar year 1945.

IV.

On or about January 7, 1949, plaintiff duly filed with the United States Collector of Internal Revenue for the First District of California, an original claim for refund in the amount of $3,623.90 in connection with said 1945 income tax return, and on March 15, 1951, plaintiff filed an amended claim for refund in the same amount of $3,623.90. Said claims were based on the ground that plaintiff was entitled to a net operating loss deduction of $6,592.72 for said year and in particular that plaintiff's $18,750.00 chargeable share of the aforementioned $75,000.00 loss was a loss from the operation of a business regularly carried on by said H. Koch & Sons. A copy of said original claim, marked Exhibit C, and a copy of said amended claim, marked Exhibit D, is attached hereto, and is incorporated by reference.

V.

The Commissioner of Internal Revenue, through the Office of the Regional Commissioner of Internal Revenue, notified plaintiff on September 10, 1954 that his ruling was that said $75,000.00 loss was a non-business loss and that therefore plaintiff could not include his share of said loss in a net operating loss. Said claims for refund were therefore denied.

VI.

Said disallowance of said claims for refund was wrongful, erroneous, and illegal in that said $75,000.00 loss and plaintiff's share of same was either a business bad debt, a loss incurred in the business of producing motion pictures, or a joint venture loss in the business of producing a motion picture, to wit, Copacabana, and in any case constituted a loss from a business regularly carried on by H. Koch & Sons and therefore by plaintiff.

VII.

No part of said sum of $3,623.90 erroneously retained by defendant has been repaid or refunded, and said sum together with interest thereon as provided by law is due, payable and owing to plaintiff from defendant.

Third Count

Comes Now Plaintiff, Bessie Koch, and for a Third Cause of Action Against the Defendant Alleges That:

I.

Plaintiff, Bessie Koch, incorporates in this third count, all the allegations contained in Paragraphs I to IX inclusively of the first count with the same force and effect as though fully set forth herein.

II.

Plaintiff and her husband, Harold Koch, filed separate returns for the year 1947, and did not claim any portion of said $18,750.00 loss on said returns.

III.

On or about January 7, 1949, plaintiff duly filed with the United States Collector of Internal Revenue for the First District of California, an original claim for refund in the amount of $318.00, and on March 15, 1951, plaintiff filed an amended claim for refund for said $318.00 in connection with her 1947 income tax return which represented all of the income tax paid by plaintiff on the said return; said claims were based on the grounds that plaintiff was entitled to an additional deduction on her 1947 income tax return in the amount of $9,375.00, which was plaintiff's one half community share of her husband's $18,750.00 chargeable loss on the aforementioned $75,000.00 loss. A copy of said original claim, marked Exhibit E, and a copy of said amended claim, marked Exhibit F, is attached hereto, and is incorporated by reference.

IV.

The Commissioner of Internal Revenue, through the Office of the Regional Commissioner of Internal Revenue, notified plaintiff on September 10, 1954, that said $9,375.00 chargeable loss was a 1947 loss but that in his opinion said loss was a non-business bad debt and was therefore a capital loss and thus was deductible by petitioner only in the amount of $1,000.00.

V.

Subsequently the amount of $107.00 was refunded to plaintiff on the basis said loss was a capital loss

and the balance of said claim in the amount of $211.00 was disallowed.

VI.

Said disallowance of $211.00 was wrongful, erroneous, and illegal in that said loss of $9,375.00 was either a business bad debt, a loss incurred in the business of producing motion pictures, or a joint venture loss in the business of producing a motion picture, to wit, Copacabana, and therefore deductible in full by plaintiff.

VII.

No part of said sum of $211.00 erroneously retained by defendant has been repaid or refunded, and said sum together with interest thereon as provided by law is due, unpaid, and owing to plaintiff from defendant.

Fourth Count

I.

Plaintiff, Bessie Koch, Incorporates in This Fourth Count, All the Allegations Contained in Paragraphs I to IX Inclusively of the First Count With the Same Force and Effect as Though Fully Set Forth Herein.

II.

In connection with her 1945 income tax return, plaintiff duly paid the income tax shown to be due by said return, to wit, the sum of $9,126.41.

III.

Plaintiff incurred a net operating loss for the calendar year 1947 in the amount of $6,592.72 which loss is allowable as a net operating loss deduction carryback for the calendar year 1945.

IV.

On or about January 7, 1949, plaintiff duly filed with the United States Collector of Internal Revenue for the First District of California, an original claim for refund in the amount of $3,673.08 in connection with said 1945 income tax return, and on March 15, 1951, plaintiff filed an amended claim for refund in the same amount of $3,673.08. Said claims were based on the ground that plaintiff was entitled to a net operating loss deduction in the amount of $6,592.72 for said year and in particular that plaintiff's community property share of her husband's $18,750.00 chargeable share of the aforementioned $75,000.00 loss was a loss from the operation of a business regularly carried on by said H. Koch & Sons. A copy of said original claim, marked Exhibit G, and a copy of said amended claim, marked Exhibit H, is attached hereto, and is incorporated by reference.

V.

The Commissioner of Internal Revenue, through the Office of the Regional Commissioner of Internal Revenue, notified plaintiff on September 10, 1954 that his ruling was that said $75,000.00 loss was a non-business loss and that therefore plaintiff could

not include her community property half of her husband's share of said partnership loss in a net operating loss. Said claims for refund were therefore denied.

VI.

Said disallowance of said claims for refund was wrongful, erroneous, and illegal in that said $75,000.00 loss and plaintiff's community property half of her husband's share of said partnership loss was either a business bad debt, a loss incurred in the business of producing motion pictures, or a joint venture loss in the business of producing a motion picture, to wit, Copacabana.

VII.

No part of said sum of $3,673.08 erroneously retained by defendant has been repaid or refunded, and said sum together with interest thereon as provided by law is due, payable and owing to plaintiff from defendant.

Fifth Count

Comes Now Plaintiff, William L. Koch, and for a Fifth Cause of Action Against the Defendant Alleges That:

I.

Plaintiff, William L. Koch, incorporates in this fifth count, all the allegations contained in Paragraphs I to IX inclusively of the first count with the same force and effect as though fully set forth herein.

II.

Plaintiff and his wife, Rose Koch, filed separate returns for the year 1947, and did not claim any portion of said $18,750.00 loss on said returns.

III.

On or about January 7, 1949, plaintiff duly filed with the United States Collector of Internal Revenue for the First District of California, an original claim for refund in the amount of $223.00, and on March 15, 1951 plaintiff filed an amended claim for refund for said $223.00 in connection with his 1947 income tax return which represented all of the income tax paid by plaintiff on the said return; said claims were based on the grounds that plaintiff was entitled to an additional deduction on his 1947 income tax return in the amount of $9,375.00, which was plaintiff's one half community share of his $18,750.00 chargeable loss on the aforementioned $75,000.00 loss. A copy of said original claim, marked Exhibit I, and a copy of said amended claim, marked Exhibit J, is attached hereto, and is incorporated by reference.

IV.

The Commissioner of Internal Revenue, through the office of the Regional Commissioner of Internal Revenue, notified plaintiff on September 10, 1954 that said $9,375.00 chargeable loss was a 1947 loss but that in his opinion said loss was a non-business bad debt and was therefore a capital loss and thus was deductible by petitioner in 1947 only in the amount of $1,000.00.

V.

Subsequently the amount of $107.00 was refunded to plaintiff on the basis said loss was a capital loss and the balance of said claims in the amount of $116.00 was disallowed.

VI.

Said disallowance of $116.00 was wrongful, erroneous, and illegal in that said loss of $9,375.00 was either a business bad debt, a loss incurred in the business of producing motion pictures, or a joint venture loss in the business of producing a motion picture, to wit, Copacabana, and therefore deductible in full by plaintiff.

VII.

No part of said sum of $116.00 erroneously retained by defendant has been repaid or refunded, and said sum together with interest thereon as provided by law is due, unpaid and owing to plaintiff from defendant.

Sixth Count

I.

Plaintiff, William L. Koch, incorporates in this sixth count, all the allegations contained in Paragraphs I to IX inclusively of the first count with the same force and effect as though fully set forth herein.

II.

In connection with his 1945 income tax return plaintiff duly paid the income tax shown to be due by said return, to wit, the sum of $8,842.22.

III.

Plaintiff incurred a net operating loss for the calendar year 1947 in the amount of $6,592.72 which loss is allowable as a net operating loss deduction carryback for the calendar year 1945.

IV.

On or about January 7, 1949, plaintiff duly filed with the United States Collector of Internal Revenue for the First District of California, an original claim for refund in the amount of $3,623.90 in connection with said 1945 income tax return, and on March 15, 1951, plaintiff filed an amended claim for refund in the same amount of $3,623.90. Said claims were based on the ground that plaintiff was entitled to a net operating loss deduction of $6,592.72 for said year and in particular that plaintiff's $18,750.00 chargeable share of the aforementioned $75,000.00 loss was a loss from the operation of a business regularly carried on by said H. Koch & Sons. A copy of said original claim, marked Exhibit K, and a copy of said amended claim, marked Exhibit L, is attached hereto, and is incorporated by reference.

V.

The Commissioner of Internal Revenue, through the Office of the Regional Commissioner of Internal Revenue, notified plaintiff on September 10, 1954 that his ruling was that said $75,000.00 loss was a non-business loss and that therefore plaintiff could not include his share of said loss in a net operating loss. Said claims for refund were therefore denied.

VI.

Said disallowance of said claims for refund was wrongful, erroneous, and illegal in that said $75,000.00 loss and plaintiff's share of same was either a business bad debt, a loss incurred in the business of producing motion pictures, or a joint venture loss in the business of producing a motion picture, to wit, Copacabana, and in any case constituted a loss from a business regularly carried on by H. Koch & Sons and therefore by plaintiff.

VII.

No part of said $3,623.90 erroneously retained by defendant has been repaid or refunded, and said sum together with interest thereon as provided by law is due, payable and owing to plaintiff from Defendant.

Seventh Count

Comes Now Plaintiff, Rose Koch, and for a Seventh Cause of Action Against the Defendant Alleges That:

I.

Plaintiff, Rose Koch, incorporates in this seventh count, all the allegations contained in Paragraphs I to IX inclusively of the first count with the same force and effect as though fully set forth herein.

II.

Plaintiff and her husband, William L. Koch, filed separate returns for the year 1945, and did not claim any portion of said $18,750.00 loss on said returns.

III.

On or about January 7, 1949, plaintiff duly filed with the United States Collector of Internal Revenue for the First District of California, an original claim for refund in the amount of $318.00, and on March 15, 1951, plaintiff filed an amended claim for refund for said $318.00 in connection with her 1947 income tax return which represented all of the income tax paid by plaintiff on the said return; said claims were based on the grounds that plaintiff was entitled to an additional deduction on her 1947 income tax return in the amount of $9,375.00, which was plaintiff's one half community share of her husband's $18,750.00 chargeable loss on the aforementioned $75,000.00 loss. A copy of said original claim, marked Exhibit M, and a copy of said amended claim, marked Exhibit N, is attached hereto and is incorporated by reference.

IV.

The Commissioner of Internal Revenue, through the Office of the Regional Commissioner of Internal Revenue, notified plaintiff on September 10, 1954, that said $9,375.00 chargeable loss was a 1947 loss but that in his opinion said loss was a non-business bad debt and was therefore a capital loss and thus was deductible by petitioner only in the amount of $1,000.00.

V.

Subsequently the amount of $107.00 was refunded to plaintiff on the basis said loss was a capital loss

and the balance of said claim in the amount of $211.00 was disallowed.

VI.

Said disallowance of $211.00 was wrongful, erroneous, and illegal in that said loss of $9,375.00 was either a business bad debt, a loss incurred in the business of producing a motion picture, to wit, Copacabana, and therefore deductible in full by plaintiff.

VII.

No part of said sum of $211.00 erroneously retained by defendant has been repaid or refunded, and said sum together with interest thereon as provided by law is due, unpaid, and owing to plaintiff from defendant.

Eighth Count

I.

Plaintiff, Rose Koch, Incorporates in This Eighth Count, All the Allegations Contained in Paragraphs I to IX Inclusively of the First Count With the Same Force and Effect as Though Fully Set Forth Herein.

II.

In connection with her 1945 income tax return, plaintiff duly paid the income tax shown to be due by said return, to wit, the sum of $9,126.41.

III.

Plaintiff incurred a net operating loss for the calendar year 1947 in the amount of $6,592.72 which

loss is allowable as a net operating loss deduction carryback for the calendar year 1945.

IV.

On or about January 7, 1949, plaintiff duly filed with the United States Collector of Internal Revenue for the First District of California, an original claim for refund in the amount of $3,673.08 in connection with said 1945 income tax return, and on March 15, 1951, plaintiff filed an amended claim for refund in the same amount of $3,673.08. Said claims were based on the ground that plaintiff was entitled to a net operating loss deduction in the amount of $6,592.72 for said year and in particular that plaintiff's community property share of her husband's $18,750.00 chargeable share of the aforementioned $75,000.00 loss was a loss from the operation of a business regularly carried on by said H. Koch & Sons. A copy of said original claim, marked Exhibit O, and a copy of said amended claim, marked Exhibit P, is attached hereto, and is incorporated by reference.

V.

The Commissioner of Internal Revenue, through the Office of the Regional Commissioner of Internal Revenue, notified plaintiff on September 10, 1954 that his ruling was that said $75,000.00 loss was a non-business loss and that therefore plaintiff could not include her community property half of her husband's share of said partnership loss in a net operating loss. Said claims for refund were therefore denied.

VI.

Said disallowance of said claims for refund was wrongful, erroneous, and illegal in that said $75,000.00 loss and plaintiff's community property half of her husband's share of said partnership loss was either a business bad debt, a loss incurred in the business of producing motion pictures, or a joint venture loss in the business of producing a motion picture, to wit, Copacabana.

VII.

No part of said sum of $3,673.08 erroneously retained by defendant has been repaid or refunded, and said sum together with interest thereon as provided by law is due, payable and owing to plaintiff from defendant.

Ninth Count

Comes Now Plaintiff, Rebecca Koch Abel, and for a Ninth Cause of Action Against the Defendant Alleges That:

I.

Plaintiff, Rebecca Koch Abel, incorporates in this ninth count, all the allegations contained in Paragraphs I to IX inclusively of the first count with the same force and effect as though fully set forth herein.

II.

On or about January 7, 1949, plaintiff duly filed with the United States Collector of Internal Revenue for the First District of California, an original

claim for refund in the amount of $605.61, and on March 15, 1951, plaintiff filed an amended claim for refund for said $605.61 in connection with her 1947 income tax return which represented all of the income tax paid by plaintiff on the said return; said claims were based on the grounds that plaintiff was entitled to an additional deduction on her 1947 income tax return in the amount of $18,750.00, which was plaintiff's share of said $75,000.00 partnership loss. A copy of said original claim, marked Exhibit Q, and a copy of said amended claim, marked Exhibit R, is attached hereto, and is incorporated by reference.

III.

The Commissioner of Internal Revenue, through the office of the Regional Commissioner of Internal Revenue, notified plaintiff on September 10, 1954 that said $18,750.00 chargeable loss was a 1947 loss but that in his opinion said loss was a non-business bad debt and was therefore a capital loss and thus was deductible by petitioner in 1947 only in the amount of $1,000.00.

IV.

Subsequently the amount of $211.22 was refunded to plaintiff of said $605.61 on the basis said loss was a capital loss and the balance of said claim in the amount of $394.39 was disallowed.

V.

Said disallowance of $394.39 was wrongful, erroneous, and illegal in that said loss of $18,750.00 was either a business bad debt, a loss incurred in the

business of producing motion pictures, or a joint venture loss in the business of producing a motion picture, to wit, Copacabana, and therefore deductible in full by plaintiff.

VI.

No part of said sum of $394.39 erroneously retained by defendant has been repaid or refunded, and said sum together with interest thereon as provided by law is due, unpaid, and owing to plaintiff from defendant.

Tenth Count

I.

Plaintiff, Rebecca Koch Abel, incorporates in this tenth count, all the allegations contained in Paragraphs I to IX inclusively of the first count with the same force and effect as though fully set forth herein.

II.

In connection with her 1945 income tax return, plaintiff duly paid the income tax shown to be due by said return, to wit, the sum of $24,779.04.

III.

Plaintiff incurred a net operating loss for the calendar year 1947 in the amount of $17,560.46 which loss is allowable as a net operating loss deduction carryback for the calendar year 1945.

IV.

On or about January 7, 1949, plaintiff duly filed with the United States Collector of Internal Reve-

nue for the First District of California, an original claim for refund in the amount of $12,142.17 in connection with said 1945 income tax return, and on March 15, 1951, plaintiff filed an amended claim for refund in the same amount of $12,142.17. Said claims were based on the ground that plaintiff was entitled to a net operating loss deduction of $17,-560.46 for said year and in particular that plaintiff's $18,750.00 chargeable share of the aforementioned $75,000.00 loss was a loss from the operation of a business regularly carried on by said H. Koch & Sons. A copy of said original claim, marked Exhibit S, and a copy of said amended claim, marked Exhibit T, is attached hereto, and is incorporated by reference.

V.

The Commissioner of Internal Revenue, through the Office of the Regional Commissioner of Internal Revenue, notified plaintiff on September 10, 1954, that his ruling was that said $75,000.00 loss was a non-business loss and that therefore plaintiff could not include his share of said loss in a net operating loss. Said claims for refund were therefore denied.

VI.

Said disallowance of said claims for refund was wrongful, erroneous, and illegal in that said $75,-000.00 loss and plaintiff's share of same was either a business bad debt, a loss incurred in the business of producing motion pictures, or a joint venture loss in the business of producing a motion picture, to

wit, Copacabana, and in any case constituted a loss from a business regularly carried on by H. Koch & Sons and therefore by plaintiff.

VII.

No part of said sum of $12,142.17 erroneously retained by defendant has been repaid or refunded, and said sum together with interest thereon as provided by law is due, payable and owing to plaintiff from defendant.

Eleventh Count

Comes Now Plaintiff, Maurice P. Koch, and for an Eleventh Cause of Action Against the Defendant Alleges That:

I.

Plaintiff, Maurice P. Koch, incorporates in this eleventh count, all the allegations contained in Paragraphs I to IX inclusively of the first count with the same force and effect as though fully set forth herein.

II.

In addition, plaintiff advanced in behalf of Beacon Pictures Corporation $15,000.00 from the community funds of his wife and himself upon the same basis that said aforementioned $75,000.00 was advanced. Said $15,000.00 was also lost in 1947.

III.

Plaintiff and his wife, Daisy Koch, filed separate returns for the year 1947, and did not claim any

portion of said $18,750.00 chargeable loss and said $15,000.00 loss on said returns.

IV.

On or about January 7, 1949, plaintiff duly filed with the United States Collector of Internal Revenue for the First District of California, an original claim for refund in the amount of $860.52 and on March 15, 1951, plaintiff filed an amended claim for refund for said $860.52 in connection with his 1947 income tax return which represented all of the income tax paid by plaintiff on said return; said claims were based on the grounds that plaintiff was entitled to an additional deduction on his 1947 income tax return of $16,875.00 which was plaintiff's one-half community share of his $18,750.00 chargeable loss on the aforementioned $75,000.00 loss or $9,375.00, and his one-half community share of the aforementioned $15,000.00 loss or $7,500.00. A copy of said original claim, marked Exhibit U and a copy of said amended claim, marked Exhibit V, is attached hereto, and is incorporated by reference.

V.

The Commissioner of Internal Revenue, through the office of the Regional Commissioner of Internal Revenue, notified plaintiff on September 10, 1954, that said $16,875.00 loss was a 1947 loss but that in his opinion said loss was a non-business bad debt and was therefore a capital loss and thus was deductible by petitioner in 1947 only in the amount of $1,000.00.

VI.

Subsequently said claim for refund in the amount of $860.52 was disallowed.

VII.

Said disallowance of the claim for refund was wrongful, erroneous, and illegal in that said loss of $9,375.00 and said loss of $7,500.00 were either business bad debts, losses incurred in the business of producing motion pictures, or joint venture losses in the business of producing a motion picture, to wit, Copacabana, and therefore deductible in full by plaintiff.

VIII.

No part of said sum of $860.52 erroneously retained by defendant has been repaid or refunded, and said sum together with interest thereon as provided by law is due, unpaid, and owing to plaintiff from defendant.

Twelfth Count

I.

Plaintiff, Maurice P. Koch, incorporates in this twelfth count, all the allegations contained in Paragraphs I to IX inclusively of the first count with the same force and effect as though fully set forth herein.

II.

Plaintiff incorporates all the allegations contained in Paragraph II of the eleventh count with the same force and effect as though fully set forth herein.

III.

In connection with his 1945 income tax return, plaintiff duly paid the income tax shown to be due by said return, to wit, the sum of $8,993.04.

IV.

Plaintiff incurred a net operating loss for the calendar year 1947 in the amount of $8,666.79 which loss is allowable as a net operating loss deduction carryback for the calendar year 1945.

V.

On or about January 7, 1949, plaintiff duly filed with the United States Collector of Internal Revenue for the First District of California, an original claim for refund in the amount of $4,649.77 in connection with said 1945 income tax return, and on March 15, 1951, plaintiff filed an amended claim for refund in the same amount of $4,649.77. Said claims were based on the ground that plaintiff was entitled to a net operating loss deduction of $8,666.79 for said year and in particular that plaintiff's $18,750.00 chargeable share of the aforementioned $75,000.00 loss and said aforementioned $15,000.00 loss were losses from the operation of a business regularly carried on by said H. Koch & Sons and by plaintiff. A copy of said original claim, marked Exhibit W, and a copy of said amended claim, marked Exhibit X, is attached hereto, and is incorporated by reference.

VI.

The Commissioner of Internal Revenue, through

the Office of the Regional Commissioner of Internal Revenue, notified plaintiff on September 10, 1954, that his ruling was that said $75,000.00 loss and said $15,000.00 loss were non-business losses and that therefore plaintiff could not include his share of said losses in a net operating loss. Said claims for refund were therefore denied.

VII.

Said disallowance of said claims for refund was wrongful, erroneous, and illegal in that said $75,000.00 loss and plaintiff's share of same and said $15,000.00 loss were either business bad debts, losses incurred in the business of producing motion pictures, or a joint venture loss in the business of producing a motion picture, to wit, Copacabana, and in any case constituted losses from a business regularly carried on by H. Koch & Sons and by plaintiff.

VIII.

No part of said $4,649.77 erroneously retained by defendant has been repaid or refunded, and said sum together with interest thereon as provided by law is due, payable and owing to plaintiff from defendant.

Thirteenth Count

Comes Now Plaintiff, Daisy Koch, and for a Thirteenth Cause of Action Against the Defendant Alleges That:

I.

Plaintiff, Daisy Koch, incorporates in this thirteenth count, all the allegations contained in Para-

graphs I to IX inclusively of the first count with the same force and effect as though fully set forth herein.

II.

In addition, plaintiff's husband, Maurice P. Koch advanced in behalf of Beacon Pictures Corporation $15,000.00 from the community funds of plaintiff and himself upon the same basis that said aforementioned $75,000.00 was advanced. Said $15,000.00 was also lost in 1947.

III.

Plaintiff and her husband filed separate returns for the year 1947, and did not claim any portion of said $18,750.00 chargeable loss and said $15,000.00 loss on said returns.

IV.

On or about January 7, 1949, plaintiff duly filed with the United States Collector of Internal Revenue for the First District of California, an original claim for refund in the amount of $860.53 and on March 15, 1951, plaintiff filed an amended claim for refund for said $860.53 in connection with said return; said claims were based on the grounds that plaintiff was entitled to an additional deduction on her 1947 income tax return of $16,875.00 which was plaintiff's one-half community share of her husband's $18,750.00 chargeable loss on the aforementioned $75,000.00 loss or $9,375.00, and her one-half community share of the aforementioned $15,000.00 loss or $7,500.00. A copy of said original claim, marked Exhibit Y and a copy of said amended

claim, marked Exhibit Z, is attached hereto, and is incorporated by reference.

V.

The Commissioner of Internal Revenue, through the office of the Regional Commissioner of Internal Revenue, notified plaintiff on September 10, 1954, that said $16,875.00 loss was a 1947 loss but that in his opinion said loss was a non-business bad debt and was therefore a capital loss and thus was deductible by petitioner in 1947 only in the amount of $1,000.00.

VI.

Subsequently, said claim for refund in the amount of $860.53 was disallowed.

VII.

Said disallowance of the claim for refund was wrongful, erroneous, and illegal in that said loss of $9,375.00 and said loss of $7,500.00 were either business bad debts, losses incurred in the business of producing motion pictures, or joint venture losses in the business of producing a motion picture, to wit, Copacabana, and therefore deductible in full by plaintiff.

VIII.

No part of said sum of $860.53 erroneously retained by defendant has been repaid or refunded, and said sum together with interest thereon as provided by law is due, unpaid, and owing to plaintiff from defendant.

Fourteenth Count

I.

Plaintiff, Daisy Koch, incorporates in this fourteenth count, all the allegations contained in Paragraphs I to IX inclusively of the first count with the same force and effect as though fully set forth herein.

II.

Plaintiff incorporates all the allegations contained in Paragraph II of the thirteenth count with the same force and effect as though fully set forth herein.

III.

In connection with her 1945 income tax return, plaintiff duly paid the income tax shown to be due by said return, to wit, the sum of $9,579.13.

IV.

Plaintiff incurred a net operating loss for the calendar year 1947 in the amount of $8,666.78 which loss is allowable as a net operating loss deduction carryback for the calendar year 1945.

V.

On or about January 7, 1949, plaintiff duly filed with the United States Collector of Internal Revenue for the First District of California, an original claim for refund in the amount of $4,797.74 in connection with said 1945 income tax return, and on March 15, 1951, plaintiff filed an amended claim for refund in the same amount of $4,797.74. Said claims

were based on the ground that plaintiff was entitled to a net operating loss deduction of $8,666.78 for said year and in particular that plaintiff's one-half community share of her husband's $18,750.00 share of the aforementioned $75,000.00 partnership loss and plaintiff's one-half community share of said aforementioned $15,000.00 loss were losses from the operation of a business regularly carried on by H. Koch & Sons and by plaintiff's husband. A copy of said original claim, marked Exhibit AA and a copy of said amended claim, marked Exhibit BB, is attached hereto, and is incorporated by reference.

VI.

The Commissioner of Internal Revenue, through the office of the Regional Commissioner of Internal Revenue, notified plaintiff on September 10, 1954, that his ruling was that said $75,000.00 loss and said $15,000.00 loss were non-business losses and that therefore plaintiff could not include her share of said losses in a net operating loss. Said claims for refund were therefore denied.

VII.

Said disallowance of said claims for refund was wrongful, erroneous, and illegal in that said $75,000.00 loss and plaintiff's husband's share of same and said $15,000.00 loss were either business bad debts, losses incurred in the business of producing motion pictures, or a joint venture loss in the business of producing a motion picture, to wit, Copacabana, and in any case constituted losses from a

business regularly carried on by H. Koch & Sons and by plaintiff.

VIII.

No part of said $4,649.77 erroneously retained by defendant has been repaid or refunded, and said sum together with interest thereon as provided by law is due, payable and owing to plaintiff from defendant.

Wherefore, plaintiff, Harold M. Koch, demands judgment against defendant in the sum of $3,739.90 together with interest according to law on said overpaid taxes, together with plaintiff's costs of suit herein, and for such other and further relief as the Court may find meet and just in the premises.

Wherefore, plaintiff, Bessie Koch, demands judgment against defendant in the sum of $3,884.08 together with interest according to law on said overpaid taxes, together with plaintiff's costs of suit herein, and for such other and further relief as the Court may find meet and just in the premises.

Wherefore, plaintiff, William L. Koch, demands judgment against defendant in the sum of $3,739.90 together with interest according to law on said overpaid taxes, together with plaintiff's costs of suit herein, and for such other and further relief as the Court may find meet and just in the premises.

Wherefore, plaintiff, Rose Koch, demands judgment against defendant in the sum of $3,884.08 together with interest according to law on said overpaid taxes, together with plaintiff's costs of suit

herein, and for such other and further relief as the Court may find meet and just in the premises.

Wherefore, plaintiff, Rebecca Koch Abel, demands judgment against defendant in the sum of $12,536.56 together with interest according to law on said overpaid taxes, together with plaintiff's costs of suit herein, and for such other and further relief as the Court may find meet and just in the premises.

Wherefore, plaintiff, Maurice P. Koch, demands judgment against defendant in the sum of $5,510.29 together with interest according to law on said overpaid taxes, together with plaintiff's costs of suit herein, and for such other and further relief as the Court may find meet and just in the premises.

Wherefore, plaintiff, Daisy Koch, demands judgment against defendant in the sum of $5,658.27 together with interest according to law on said overpaid taxes, together with plaintiff's costs of suit herein, and for such other and further relief as the Court may find meet and just in the premises.

/s/ LEON SCHILLER.

We hereby request and demand a trial by jury on all counts of this complaint.

/s/ LEON SCHILLER.

[Endorsed]: Filed July 5, 1955.

[Title of District Court and Cause.]

## ANSWER

The defendant, United States of America, by its attorney, Lloyd H. Burke, United States Attorney, in and for the Northern District of California, for its answer to plaintiffs' complaint, admits, denies and alleges as follows:

### First Count

1. Admits the allegations of Paragraph I, except to deny that any taxes were erroneously, illegally or wrongfully assessed or collected.

2. Admits, except to deny the allegations or implications that plaintiffs duly and correctly reported income, and except to deny the implication or allegation that plaintiffs are entitled to recover any taxes.

3. Defendant is without information sufficient to form a belief as to the truth of the allegations contained in Paragraph III, except to admit that partnership tax returns were filed for the alleged partnership showing the alleged persons as partners for the years 1945, 1946 and 1947.

4. Denies, except to admit that the alleged partnership was engaged in business of luggage manufacturing. Further answering Paragraph IV, defendant says that the alleged partnership in its 1945, 1946 and 1947, and amended 1947 tax returns

reported its business as only luggage manufacturing.

5. Defendant is without information sufficient to form a belief as to the truth of the allegations contained in Paragraph V, except as hereinafter admitted or denied. Further answering Paragraph V, defendant alleges that in August, 1946, a corporation named Beacon Picture Corporation was in existence and existed for the purpose of making a motion picture entitled Copacabana. In 1946, the alleged partnership, H. Koch & Sons, loaned $75,000 to said Beacon Pictures Corporation. Defendant denies that this $75,000 was loaned in connection with the joint venture and denies that any joint venture existed. Defendant admits that the alleged partnership, H. Koch & Sons, acquired an interest in said motion picture which interest entitled it to a share of profits from said production. Said interest was in the nature of additional compensation for the use of said $75,000 and was granted as an inducement to enter into the loan. Defendant denies that the $75,000 would be repaid only if the undertaking was successful.

6. Admits, except to deny the allegation or implication that the transfer of said $75,000 was anything other than a loan.

7. Defendant is without information sufficient to form a belief as to the truth of allegations contained in Paragraph VII, except that defendant admits that the partnership return claimed no $75,000 loss.

8. Denies, except to admit that the original partnership return reported ordinary net income of $19,223.18.

9. Defendant has no information sufficient to form a belief as to the truth of the allegations contained in Paragraph IX.

10. Admits, except to deny that plaintiff, Harold M. Koch, and his wife, Bessie Koch, were entitled to a deduction of $18,750.00.

11. Denies, except to admit that plaintiff filed claims for refund for the amounts alleged. Defendant says the original claim was filed on June 23, 1949, and the amended claim on March 15, 1951.

12. Denies, except to admit that on September 10, 1954, defendant or its agent notified plaintiff that his claim for refund could not be allowed because it had been ruled that the alleged loss was a non-business bad debt.

13. Denies. Defendant says that the amount of $149.12 was refunded to plaintiff, $42.12 of which represented interest.

14. Denies.

15. Denies.

Second Count

1. Defendant, United States of America, incorporates in this Count its answers to Paragraphs I to X, inclusive, of the First Count with the same force and effect as though set forth herein.

2. Admits, except to deny plaintiff paid the full tax due for the year 1945.

3. Denies.

4. Denies, except to admit plaintiff filed claims for refund in the amounts alleged. Defendant says the original claim was filed on June 23, 1949, and the amended claim on March 15, 1951.

5. Denies, except to admit that on September 10, 1954, defendant or its agent notified plaintiff that his claim for refund could not be allowed because it had been ruled that the alleged loss was a non-business bad debt.

6. Denies.

7. Denies.

Third Count

1. Defendant, United States of America, incorporates in this Third Count its answers to Paragraphs I to IX, inclusive, of the First Count with the same force and effect as though set forth at length herein.

2. Admits, except to deny that plaintiff, Bessie Koch, or her husband, Harold Koch, were entitled to a deduction of $18,750.00.

3. Denies, except to admit that plaintiff filed claims for refund for the amounts alleged. Defendant says the original claim was filed on June 23, 1949, and the amended claim on March 15, 1951.

4. Denies, except to admit that on September 10, 1954, defendant or its agent notified plaintiff

that her claim for refund could not be allowed because it had been ruled that the alleged loss was a non-business bad debt.

5. Denies. Defendant says that the amount of $149.12 was refunded, $42.12 of which represented interest.

6. Denies.

7. Denies.

Fourth Count

1. Defendant, United States of America, incorporates in this Fourth Count its answers to Paragraphs I to IX, inclusive, of the First Count with the same force and effect as though set forth at length herein.

2. Admits, except to deny that plaintiff paid the full tax due for the year 1945.

3. Denies.

4. Denies, except to admit that plaintiff filed claims for refund for the amounts alleged. Defendant says the original claim was filed on June 23, 1949, and the amended claim on March 15, 1951.

5. Denies, except to admit that on September 10, 1954, defendant or its agent notified plaintiff that her claim for refund could not be allowed because it had been ruled that the alleged loss was a non-business bad debt.

6. Denies.

7. Denies.

Fifth Count

1. Defendant, United States of America, incorporates in its Fifth Count its answers to Paragraphs I to IX, inclusive, of the First Count with the same force and effect as though set forth at length herein.

2. Admits, except to deny that plaintiff, William L. Koch, or his wife, Rose Koch, were entitled to a deduction of $18,750.

3. Denies, except to admit that plaintiff filed claims for refund for the amounts alleged. Defendant says the original claim was filed on June 23, 1949, and the amended claim on March 15, 1951.

4. Denies, except to admit that on September 10, 1954, defendant or its agent notified plaintiff that his claim for refund could not be allowed because it had been ruled that the alleged loss was a non-business debt.

5. Denies. Defendant says that the amount of $149.12 was refunded to plaintiff, $42.12 of which represented interest.

6. Denies.

7. Denies.

Sixth Count

1. Defendant, United States of America, incorporates in this Sixth Count its answers to Paragraphs I to IX, inclusive, of the First Count with the same force and effect as though set forth at length herein.

2. Admits, except to deny that plaintiff paid in full the tax due for the year 1945.

3. Denies.

4. Denies, except to admit that plaintiff filed claims for refund for the amounts alleged. Defendant says that the original claim was filed on June 23, 1949, and the amended claim on March 15, 1951.

5. Denies, except to admit that on September 10, 1954, defendant or its agent notified plaintiff that his claim for refund could not be allowed because it had been ruled that the alleged loss was a non-business bad debt.

6. Denies.

7. Denies.

Seventh Count

1. Defendant, United States of America, incorporates in this Seventh Count its answers to Paragraphs I to IX, inclusive, of the First Count with the same force and effect as though set forth at length herein.

2. Admits, except to deny that plaintiff, Rose Koch, or her husband, William L. Koch, were entitled to deduction of $18,750 for 1945 or for 1947. Further answering Paragraph II defendant says that plaintiff and her husband also filed separate returns for the year 1947.

3. Denies, except to admit that plaintiff filed claims for refund for the amounts alleged. Defend-

ant says the original claim was filed on June 23, 1949, and the amended claim on March 15, 1951.

4. Denies, except to admit that on September 10, 1951, defendant or its agent notified plaintiff that her claim for refund could not be allowed because it had been ruled that the alleged loss was a non-business bad debt.

5. Denies. Defendant says that the amount of $149.12 was refunded to plaintiff, $42.12 of which represented interest.

6. Denies.

7. Denies.

Eighth Count

1. The defendant, United States of America, incorporates in this Eighth Count its answers to the allegations contained in Paragraphs I to IX, inclusive, of the First Count with the same force and effect as though set forth at length herein.

2. Admits, except to deny plaintiff paid the full tax due for 1945.

3. Denies.

4. Denies, except to admit that plaintiff filed claims for refund for approximately the amounts alleged. Defendant says that each claim was for refund of $3,673.09. Defendant says the original claim was filed on June 23, 1949, and the amended claim on March 15, 1951.

5. Denies, except to admit that on September 10, 1954, defendant or its agent notified plaintiff that her claim for refund could not be allowed because it had been ruled that the alleged loss was a non-business bad debt.

6. Denies.

7. Denies.

Ninth Count

1. Defendant, United States of America, incorporates in this Ninth Count its answers to the allegations contained in Paragraph I and Paragraphs III through IX, inclusive, of the First Count with the same force and effect as though set forth at length herein.

With respect to Paragraph II of the First Count, defendant admits the allegations contained therein, except to deny the allegations or implications that she duly and correctly reported her income and except to deny the allegations or implications that plaintiff is entitled to recover any taxes and except that the defendant has no knowledge or information sufficient to form a belief as to the truth of the allegation that plaintiff resides in San Francisco, California.

2. Denies, except to admit that plaintiff filed an original and amended claims for refund of $605.61 for 1947 income taxes on June 23, 1949, and March 15, 1951, respectively.

3. Defendant is without knowledge or information sufficient to form a belief as to the truth of the allegations contained in Paragraph III.

4. Defendant is without knowledge or information sufficient to form a belief as to the truth of the allegations contained in Paragraph IV.

5. Denies.

6. Denies.

Tenth Count

1. The defendant, United States of America, incorporates in this Tenth Count its answer to Paragraph I of the Ninth Count with the same force and effect as though set forth at length herein.

2. Admits, except to deny that plaintiff paid the full tax due for 1945.

3. Denies.

4. Denies, except to admit that plaintiff filed claims for refund for the amounts alleged. Defendant says the original claim was filed on June 23, 1949, and the amended claim on March 15, 1951.

5. The defendant is without knowledge or information sufficient to form a belief as to the truth of the allegations contained in Paragraph V.

6. Denies.

7. Denies.

Eleventh Count

1. The defendant, United States of America, incorporates in this Eleventh Count its answers to

the allegations contained in Paragraphs I to IX, inclusive, of the First Count with the same force and effect as though set forth at length herein.

2. Admits, except to deny that this transaction was other than a loan and except to deny that the basis of this loan was the same as the basis of the $75,000 loan.

3. Admits, except to deny that plaintiff, Maurice P. Koch, or his wife, Daisy Koch, were entitled to deductions of $18,750 or $15,000 and except to deny that plaintiff suffered a "chargeable" loss in either of these amounts.

4. Denies, except to admit that plaintiff filed claims for refund for the amounts alleged. Defendant says the original claim was filed on June 23, 1949, and the amended claim on March 15, 1951.

5. Denies, except to admit that on September 10, 1954, defendant or its agent notified plaintiff that his claim for refund could not be allowed because it had been ruled that the alleged loss was a non-business bad debt.

6. Denies.

7. Denies.

8. Denies.

Twelfth Count

1. The defendant, United States of America, incorporates in this Twelfth Count its answers to the allegations contained in Paragraphs I to IX,

inclusive, of the First Count with the same force and effect as though set forth at length herein.

2. The defendant, United States of America, incorporates in this Twelfth Count its answer to the allegations contained in Paragraph II of the Eleventh Count with the same force and effect as though set forth at length herein.

3. Admits, except to deny that plaintiff paid in full taxes due for the year 1945.

4. Denies.

5. Denies, except to admit that plaintiff filed claims for refund for the amounts alleged. Defendant says the original claim was filed on June 23, 1949, and the amended claim on March 15, 1951.

6. Denies, except to admit that on September 10, 1954, defendant or its agent notified plaintiff that his claim for refund could not be allowed because it had been ruled that the alleged loss was a non-business bad debt.

7. Denies.

8. Denies.

Thirteenth Count

1. The defendant, United States of America, incorporates in this Thirteenth Count its answers to the allegations contained in Paragraphs I to IX, inclusive, of the First Count with the same force and effect as though set forth at length herein.

2. Admits, except to deny that this transaction was other than a loan and except to deny that the basis of this loan was the same as the basis of the $75,000 loan.

3. Admits, except to deny that plaintiff or her husband was entitled to deductions of $18,750 or $15,000 and except to deny that plaintiff suffered a "chargeable" loss on either of these amounts.

4. Denies, except to admit that plaintiff filed claims for refund for amounts alleged. Defendant says the original claim was filed June 23, 1949, and the amended claim on March 15, 1951.

5. Denies, except to admit that on September 10, 1954, defendant or its agent notified plaintiff that her claim for refund could not be allowed because it had been ruled that the alleged loss was a non-business bad debt.

6. Denies.

7. Denies.

8. Denies.

Fourteenth Count

1. The defendant, United States of America, incorporates in this Fourteenth Count its answers to the allegations contained in Paragraphs I to IX, inclusive, of the First Count with the same force and effect as though set forth at length herein.

2. The defendant, the United States of America, incorporates, in this Fourteenth Count its answer to the allegations contained in Paragraph II of the

Thirteenth Count with the same force and effect as though set forth at length herein.

3. Admits, except to deny that plaintiff paid the full taxes due for the year 1945.

4. Denies.

5. Denies, except to admit that plaintiff filed claims for refund for the amounts alleged. Defendant says the original claim was filed on June 23, 1949, and the amended claim on March 15, 1951.

6. Denies, except to admit that on September 10, 1954, defendant or its agent notified plaintiff that her claim for refund could not be allowed because it had been ruled that the alleged loss was a non-business bad debt.

7. Denies.

8. Denies.

Partial Affirmative Defense

Plaintiffs have not calculated correctly the amount of refund due under their theory.

Wherefore, having fully answered, defendant prays for dismissal of plaintiffs' complaint, for judgment in its favor, for costs and for such other relief as may be just and proper.

/s/ LLOYD H. BURKE,

By /s/ LYNN J. GILLARD,
United States Attorney.

Affidavit of service by mail attached.

[Endorsed]: Filed October 24, 1955.

[Endorsed]: No. 15645. United States Court of Appeals for the Ninth Circuit. Harold M. Koch, Bessie Koch, William L. Koch, Rose Koch, Rebecca Koch Abel, Maurice P. Koch, and Daisy Koch, Appellants, vs. United States of America, Appellee. Supplemental Transcript of Record. Appeal from the United States District Court for the Northern District of California, Southern Division.

Filed: July 17, 1957.

Docketed: July 27, 1957.

/s/ PAUL P. O'BRIEN,
Clerk of the United States Court of Appeals for the Ninth Circuit.